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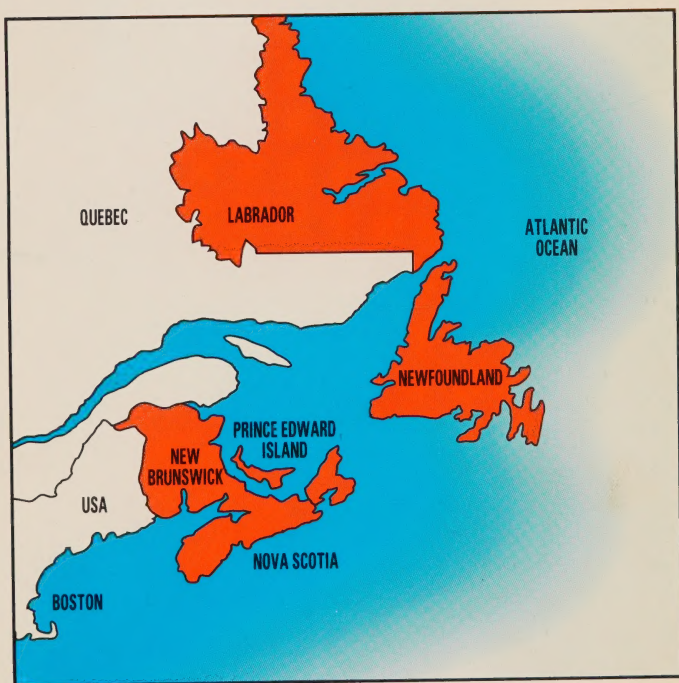
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
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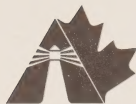
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*Helping People Succeed in Business*

# The State of Small Business and Entrepreneurship in Atlantic Canada - 1992



Canada 



Atlantic Canada  
Opportunities  
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Agence de  
promotion économique  
du Canada atlantique

## About ACOA

The Atlantic Canada Opportunities Agency (ACOA) is a federal government agency. Headquartered in the region, ACOA's goal is to work with Atlantic Canadians to improve the economy of our communities, through the successful development of businesses and job opportunities.

ACOA carries this out by:

- ☐ helping people to set up new, and to expand existing businesses
- ☐ marketing Atlantic Canada, nationally and internationally
- ☐ working together with other federal departments, the provincial governments and private sector within the four Atlantic provinces to ensure maximum benefit for the region



# The State of Small Business And Entrepreneurship in Atlantic Canada 1992

Second annual report on small  
business by the Atlantic Canada  
Opportunities Agency

Additional copies of the *State of Small Business and Entrepreneurship in Atlantic Canada* report are available upon request from:

Atlantic Canada Opportunities Agency  
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# **A MESSAGE FROM**

**The Honourable John C. Crosbie  
Minister for the Atlantic Canada Opportunities  
Agency, and  
Minister of Fisheries and Oceans**

It is my pleasure to introduce the second annual edition of The State of Small Business and Entrepreneurship in Atlantic Canada.

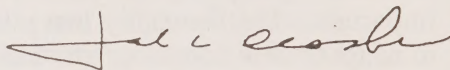
In this era of changing market patterns and increasing global competitiveness, the role of small business in the economic prosperity of our country has never been so important. The flexibility that allows most small businesses to adapt to new consumer attitudes enables small business to take advantage of exciting new opportunities. This is the particular case in Atlantic Canada where traditional geographic and market barriers are giving way to an international marketplace made accessible by technological innovation and new trading policies.

Since 1987, the Atlantic Canada Opportunities Agency has been working to increase the number of opportunities for Atlantic Canadians to learn about starting and running their own businesses. We at ACOA believe that by promoting entrepreneurship and encouraging people to develop entrepreneurial skills, more competitive and successful small business will result. Through The State of Small Business and Entrepreneurship in Atlantic Canada, the Government of Canada is providing insight into the challenges and opportunities of regional small business, for the benefit of policy makers, educators and businesspeople alike. This initiative is an important element within ACOA's strategic approach to

developing a climate within Atlantic Canada that is more conducive to business ownership.

While the 1991 State of Small Business laid the groundwork for the study of small business in Atlantic Canada, the 1992 report takes a closer look at current trends affecting business development, including female entrepreneurship, training and education, investment capital, and government and private sector partnerships. The findings are key to the development of more responsive economic policy. Dr. David Birch, a leading American authority on employment, business growth and economic change, recently told a group of Atlantic Canadian economic policy makers: "If you haven't read The State of Small Business and Entrepreneurship in Atlantic Canada, you're not doing your job!"

I hope the readers of this report will find it as useful and informative as the 1991 edition.

A handwritten signature in dark ink, appearing to read "John C. Crosbie". The signature is fluid and cursive, with a large, stylized initial "J" and "C".

John C. Crosbie

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The writing of this 1992 report was a collaborative effort between Don Rumball and Robin Stuart-Kotze, PhD. Don Rumball contributed analysis, interpretation and writing of Chapters 2 and 3 and formatted the final report for publication; Robin Stuart-Kotze wrote the theme chapters 4, 5 and 6 and both writers contributed to Chapter 1.

The project was directed by Lois Stevenson, the Atlantic Canada Opportunities Agency who chaired an ACOA Editorial Committee consisting of Rose-Marie LeBlanc, Nora Henderson, Gary Brenton, Deborah Lyons and Janice Goguen.

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# EXECUTIVE SUMMARY

## TURNING THE ATLANTIC ECONOMY AROUND

The Second Report on the State of Small Business and Entrepreneurship in Atlantic Canada sounds a number of themes: small business is becoming increasingly important; it is growing very rapidly and creating jobs just at the time when big business is downsizing and losing jobs; women are playing an active and important role in the formation of small businesses; government is playing a dominant role in the development of small business. The report echoes many of the themes sounded by the documents of the Prosperity Initiative and Michael Porter's Competitiveness report: the record on training and education has not been adequate; the linkage between suppliers and users of investment capital has not been made well enough; governments, business and labour have had difficulty working together to form partnerships; the region and the country need to develop a strong understanding of the issue of competitiveness and need to start to work together to achieve important goals. The old paradigms are no longer working, nor will they work again.

### *The importance of training and education for small business*

The job market is in a state of constant change. One in three people in the workforce experiences a change of job or a period of unemployment, according to the Economic Council of Canada. The problem that faces Atlantic Canadians is that as the economy changes increasingly rapidly, and technology leapfrogs itself, when they leave one job will they have the skills to obtain another, either within their existing organization or in a new one? As the Prosperity Initiative paper, Prosperity Through Competitiveness notes, "Private sector spending in Canada on education and training falls well behind that of our major competitors. Despite some

important efforts to improve business performance with respect to training, most business people still appear to view investment in the development of people as primarily a public responsibility, an attitude that is now coming to affect Canada's competitive prospects."

Building a learning culture is clearly needed in Atlantic Canada to help us deal with economic changes. Employees tend to acquire new skills and knowledge in firms where there is a strong commitment to employee training and on-the-job learning, but some estimates indicate that Canadian workers receive only about half as much on-the-job training as their US counterparts - and the US numbers are low in relation to world standards.

**In spite of very difficult economic conditions, an increasing percentage of the population see themselves as either very or somewhat likely to start their own business within the next two years.**

This Report on the State of Small Business and Entrepreneurship in Atlantic Canada highlights a tremendous number of positive changes in the region. It also makes it clear that there are some very difficult problems to be faced and dealt with. But the overall sense of the report is that small businesses and entrepreneurship in Atlantic Canada are becoming stronger all the time and that the vitality and energy and sheer determination of Atlantic Canadians is winning the day, slowly but surely.

Much of the infrastructure is in place. It needs to be strengthened and bolstered. In chapter six, the characteristics of areas which do not support entrepreneurship and growth of new business, and the characteristics of areas where new business growth is dynamic and rapid, are discussed. When Atlantic Canada is compared against these characteristics the task is clear.

## **SMALL BUSINESS IS BIG**

**S**mall firms in Atlantic Canada created 90% of the new jobs during the period from 1980-89. This compares with

an 86.6% share for all of Canada. Of the 147,000 new jobs created by the regional economy, 56% originated in firms with fewer than 5 employees. In Canada, the comparable share was 47%.

In the decade up to 1988, small firms - defined as those employing fewer than 100 people - had only a 76.7% share of the new jobs created during the period. This remarkable change in one year reflects two aspects of the trend toward small firms: the first year of the 1979-88 decade was the last one when small firms were a much less important factor in the economy, accounting for only 39% of the new jobs created that year; also, after a dip to 70% in their share of new jobs in 1988, small firms rebounded to their more accustomed level for the 1980s of a 113% share. [A 113% share means that for every 113 jobs created by small firms, medium-sized and large firms declined by 13.]

The pattern in the four Atlantic provinces differ significantly from each other. In Newfoundland, 83% of the new jobs came from firms with fewer than 5 employees, while in Nova Scotia, this group created only 47% of the new jobs. In New Brunswick, these smallest firms created 54% of the jobs and in Prince Edward Island 51%.

Large firms in the Atlantic region still provide most of the employment: firms with between 100 and 500 employees provide work for 13% of the total workforce, compared to 50% for those employing 500 or more people.

The statistics on job creation depend heavily on the mix of industries in any region or country. In particular, the employment patterns in government-controlled institutions are very different from those in the private sector. In order to understand these distinctions better, it is helpful to distinguish between the funded sector and the market sector of the economy. This allows for the separation of those industries which are not dependent upon market acceptance of their products for growth. Included in this group are public administration and community services (which includes education and health and welfare). In small firms in the Atlantic region, only 11% of the jobs are in the funded sector. In large firms,

the funded sector provides 44% of employment. Within the market sector, small firms provide almost 48% of total employment. In other words, small firms in the market sector employ about the same number of people in the region as big and mid-sized firms combined.

Small firms earned their major share of new jobs because they grew at a remarkable rate. The growth rates were most spectacular in the smallest firms, those employing fewer than 20 people, which almost doubled in the course of the decade to 1989. The next highest growth rates were among the balance of small firms, employing 20 to 99 people, which grew at 17%, compared to 15% for the mid-sized firms and a decline of ½% for the largest firms employing more than 500 people.

### *Industry break-out*

**T**here is a strong correlation between the degree of small-firm dominance in an industry and employment growth rates. The fastest growth rates over the decade are generally in the industries where small firms have the highest employment share.

In Canada as a whole, between 1980 and 1989, manufacturing's share of employment fell from 22% to 18%. At the same time, personal and business services showed the largest increase in the number of jobs, going from 14% to 17% of employment or from 1.33 million to 2.02 million jobs. The most significant job creator after this was community services; these two, between them, created almost 50% of the new jobs in Canada,

### *A profile of the self-employed*

**I**n 1989, the most recent year for which tax data is available, there were 165,576 people in the Atlantic region who had self-employed earnings: out of total earnings of \$28,698, these people earned an average of \$8,267 (or 29%) from self-employment. In 1988, there were about one thousand fewer

self-employed people and they earned, on average, \$8,373 from self-employment out of total earnings of \$26,998. 1989 was therefore a tough year for the self-employment who saw their earnings from this source drop by a bit more than 1%, while their total income grew 6%.

Males and people over 35 earn significantly more than the average, while females and the young earn only 63% and 72% of the average respectively. Females average 43% of the males' self-employed income and 56% of their total income.

## UPS AND DOWNS

During the 1980s, the largest firms in the region gave ground gently to the smallest firms, reducing employment by an average of somewhat less than 1,000 people a year, on the base of an initial total employment of 383,700 in 1980. The smallest firms, meanwhile, grew at an amazing rate through recessions and setbacks, averaging more than 9,000 new jobs a year, or 15% a year on a base of 1980 employment of less than 50,000. Moreover, since the early 1980s, the gap between the growth rate of big and small companies has widened; this gap is more noticeable for Canada than it is for the Atlantic region, because growth rates for small firms tend to be more volatile in the country as a whole than in the region. The main reason for the greater stability in the region is the funded sector, which employs 32% of all workers, compared to 24% in the country as a whole.

### *Births, deaths and survivors*

The remarkable contribution of small firms to the creation of employment is based largely on the formation of new business ventures. In the decade ending in 1989, employers in the region created 147,000 net new jobs, on a base of 720,000 in 1979. This included 221,000 new jobs from births of new companies and 148,000 lost jobs from firms that disappeared during the decade.

The rate of increase in the number of firms in Canada is significantly below the rate in Atlantic Canada, particularly Newfoundland and Prince Edward Island. New firms started during the decade represented 152% of the total number of firms in Newfoundland in 1979; the comparable figure for PEI is 118%, while Canada is at 107%. This high rate of new ventures naturally breeds a high death rate as well, because new firms are so vulnerable in their early years. Indeed, the death rate is significantly higher in the Atlantic than it is elsewhere in the country.

In terms of employment, however, the country as a whole is way ahead of the region, with a significantly greater net gain from births and deaths. This would seem to indicate that, even though small businesses are the prime source of new jobs now, a high level of venture formation does not necessarily translate into a high level of job creation in the early stages of a transition toward a more entrepreneurial economy. As the transition builds a head of steam, entrepreneurs develop an infrastructure that supports and encourages them, helping them become more experienced and venturesome, and more able to translate that experience into more jobs for each new business.

### *What it takes to survive*

**F**or the region as a whole, startups averaged slightly less than 20% per year of the number of businesses in existence at the beginning of each year. However, these new firms are vulnerable: after three years, only 44% of the firms that started in an average year will still be in business; after six years, it is only a third; 20% remain after 11 years; and only 10% remain after 20 years.

The net effect of this attrition is an average loss of 15% a year of firms that existed at the beginning of each year - which means that the total number of firms in the region has been growing at about 4.7% a year. This net growth accumulates rapidly, however - the total number of businesses in the region rose to 86,000 in 1989 from 56,000 in 1980.

## *The dynamics of business and employment*

Small businesses, as a group, can lay claim to being the most dynamic part of the economy, as they consistently provide the lion's share of new jobs. But individually, they often lead a precarious existence. More than half the firms that existed in 1979 went out of business during the decade, and new ventures added exactly double that number to increase the stock of businesses by a net 54%. In the course of this activity, the firms that existed in 1979 lost almost 75,000 jobs. New ventures saved the day by creating 220,000 jobs, or the equivalent of 151% of total new jobs.

Despite the dominance of new ventures, it is important to note that almost half of all net increase in jobs were provided by a mere 9% of the 1979 firms that grew into a larger size category during the decade than the one they started with. This indicates the secret of small businesses in their role as the engine of job creation - when they fail, as they often do, the job losses are not too serious, but when they grow, the gains in employment can be very impressive. Only 6% of the 1979 firms with fewer than 5 employees grew into bigger size categories - or 4% of all firms in the region at the time -but they accounted for 12% of all new jobs created during the decade. The firms employing 5 to 19 people that grew into bigger size categories were only 1.4% of all the firms of all sizes existing in 1979, but they also accounted for 12% of total job creation.

Most impressive of all, the high-growth firms that jumped two or more size categories in 1980-89 represented slightly more than one half of one percentage point of the firms operating in 1979, yet they accounted for more than one tenth of all new jobs during 1980-89. These, of course, exclude startups during the period, demonstrating the extraordinary potential of small firms to grow fast once they are established.

## RISK CAPITAL FINANCING

The growth of small business in the region is highly dependent on adequate and appropriate sources of investment capital. Traditional risk capital sources include funds from friends and relatives ("love money"), informal investors ("angels"), provincially sponsored venture capital companies (PSVCCs), institutional investors, and the securities exchanges, with Crown Corporations and government agencies also playing an important role.

However, there are problems with the supply of risk capital in the region, as only 5% of the venture capital companies in Canada are located in Atlantic Canada. On the demand side of the equation, problems arise because the small business sector tends to be relatively unsophisticated and its financing needs tend to be too small in relation to the size of funding offered by suppliers. There is also a reluctance on the part of entrepreneurs in the region to relinquish control to outsiders which manifests itself in a bias towards debt financing, with more than 80% of small business financing being done through the chartered banks. As a result, the level of private sector risk capital financing has been low, at about \$15 million per year - less than half the rate in Ontario and Quebec.

Public sector funds have been the largest and most significant source of risk capital financing in Atlantic Canada; Crown Corporations and government agencies and provincially sponsored venture capital companies (PSVCCs), which account for 80% of private risk capital investments, are the major suppliers. Of the more than \$165 million injected into the economy of the region over the last decade, 75% has come through these two sources. Only 2% of the risk capital in Atlantic Canada is supplied by informal investors ("angels"), as compared with 7% across the country. The lack of a critical mass of informal investors and a low economic infrastructure have placed more pressure on government to fill the needs of the region, largely because

private sector funds have found the lack of liquidity in small business investments too onerous for them to deal with.

There is a shortage of high quality, highly experienced managers, both entrepreneurs and risk capital managers, with the result that venture capitalists have difficulty finding high quality, highly experienced entrepreneurs in whom to invest. They therefore commit little money to startup financing, making follow-on financing difficult to obtain, in turn causing failure rates to rise, slowing the process even further. In stepping into this gap, governments find themselves on the horns of a dilemma: as the major source of risk capital in the region they cannot withdraw from the startup financing market and yet will find it increasingly difficult to provide follow-on funding, thereby jeopardizing their initial startup commitments. The private sector must begin to play a larger role in the financing of small businesses. Banks have not shown an interest in risk financing, preferring to lend against strong security.

## **WOMEN ENTREPRENEURS**

**T**he increase in the number of self-employed women between 1975 and 1990 was 172.8%, an annual average growth rate of 11.5%. It is projected that more than one in three self-employed people in Canada by 2000 will be women. Women entrepreneurs tend to start their own businesses (75%) rather than inheriting them or taking over a family business (5%) or buying an existing business (20%). Their businesses are heavily concentrated in the service sector and in retail business (82%), but they are increasing their penetration of other sectors of business, most notably in agriculture, manufacturing and construction.

Women entrepreneurs are a major force in job creation in Atlantic Canada and in the country as a whole. Fifty percent of new business startups in Canada in 1989 were by women. Projections indicate that this figure will increase to 65% in the early-to-mid 1990s. A third of women owned businesses have paid help. In the United States, women-

owned businesses employ about 10% of the workforce, the same percentage accounted for by the Fortune 500. Regional studies in Atlantic Canada indicate that women are employing more people.

Women entrepreneurs show increasing reliance on personal savings and family when financing their businesses. Research indicates a decreasing reliance on commercial banks as a source of funding, and risk capital remains highly underutilized. There has been an increase in the use of government financing programs by women entrepreneurs; in 1990 they represented approximately 18% of the sources of initial capital investment. In terms of the relationship with commercial banks, a study in 1990 of small business borrowing in Canada found that while there was no significant difference between women-owned and men-owned businesses in the borrower ratings assigned by lending officers, the former tend to be newer, concentrated in the higher risk areas of retail and service, and the women owners have less managerial experience (58% of women have four or more years of related managerial experience as compared to 76% of male owners) and less non-managerial experience (67% have three or more years of related non-managerial experience, while 80% of male entrepreneurs meet this criterion). The result is that bank financing remains more difficult for women than men. However the frequency of spousal guarantees was the same for men and women borrowers.

In terms of characteristics, women entrepreneurs see themselves as more determined, having more initiative, being more independent, more diligent and more creative than male entrepreneurs see themselves. Men, on the other hand, see themselves as more self-confident and risk-taking. Both women and men feel that they have experienced some change in personal characteristics during their entrepreneurial lives (88% of women and 86% of men), and 17% of women and 16% of men feel that these changes are entirely the result of their involvement with their businesses. It is clear that the entrepreneurial experience changes people.

A number of the needs of women entrepreneurs are being addressed by support agencies, programs and services in the Atlantic region. These are specialized in areas such as financial assistance programs of various kinds (loans, grants, loan guarantee programs), women-focused entrepreneurial and self-employment training programs (for venture startup and growth), networking or mentoring initiatives, counselling and outreach services, and referral and information services. In addition there have been a number of initiatives which promote entrepreneurship as an option for women and which profile successful examples of women entrepreneurs in the region.

## **CREATING THE ENTREPRENEURIAL ENVIRONMENT**

**T**he data and conclusions reached in the State of Small Business and Entrepreneurship in Atlantic Canada need to be viewed against the backdrop of the current economic environment. A structural change is taking place in the economy of the region. Entrepreneurship and small business formation and development emerge as an appropriate response to these changes. Small business in Canada is the major job creator. Despite the economic decline, the number of businesses in the region increased by 5.1% between June 1990 and June 1991.

Problems identified for small business in Atlantic Canada include a low awareness of entrepreneurship in many areas, a concentration of activities in geographic areas where government managed or government sponsored development agencies are located, a lack of knowledge on the part of entrepreneurs as to how to proceed with a business startup, varied levels of entrepreneurship training and education, low levels of entrepreneurship-related research, and weak inter-network communication. But the solutions have also been recommended which include the creation of champions of entrepreneurship and small business, the need to develop a clearer picture of the needs of entrepreneurs in the region, the

establishment of partnerships between government, public agencies and private groups and agencies, better access to training for small businesses, and the recognition and encouragement of entrepreneurs' efforts and tolerance of failure.

U.S. research into small business and entrepreneurship shows that development is weak in regions where there are low education levels, strong control of the local economy and politics by a few wealthy families or dominant companies with a stake in the status quo, a remoteness which hinders communication between individuals and groups with innovative ideas, a lack of higher education facilities, and a poor climate. On the other hand, areas which have quality educational resources, particularly higher education, and which have quality labour and government, well developed telecommunications and a high quality of life are those which will attract new business and employment growth. The blueprint for Atlantic Canada is clear. Net job growth comes from entrepreneurship and business creation. The task in the region is to create a positive entrepreneurial environment now in order to affect recovery and strong positive growth five years from now.

# CHAPTER 1

## TURNING THE ATLANTIC ECONOMY AROUND

The Second Annual Report on the State of Small Business and Entrepreneurship in Atlantic Canada sounds a number of themes: small business is becoming increasingly important; it is growing very rapidly and creating jobs just at the time when big business is downsizing and losing jobs; women are playing an active and important role in the formation of small businesses; government is playing a dominant role in the development of small business. The report echoes many of the themes sounded by the documents of the Prosperity Initiative<sup>1</sup> and Michael Porter's Competitiveness report<sup>2</sup>: the record on training and education has not been adequate; the linkage between suppliers and users of investment capital has not been made well enough; governments, business and labour have had difficulty working together to form partnerships; the region and the country need to develop a strong understanding of the issue of competitiveness and need to start to work together to achieve important goals. The old paradigms are no longer working, nor will they work again.

### *The Importance of Training and Education for Small Business*

The job market is in a state of constant change. One in three people in the workforce experiences a change of

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<sup>1</sup> *Industrial Competitiveness. Prosperity Through Competitiveness. Learning Well... Living Well.* (The Prosperity Initiative) Government of Canada, 1991.

<sup>2</sup> Michael Porter, *Canada at the Crossroads: The Reality of a New Competitive Environment.* Study Prepared for the Business Council on National Issues and the Government of Canada, October, 1991.

job or a period of unemployment, according to the Economic Council of Canada. The problem that faces Atlantic Canadians is that as the economy changes increasingly rapidly, and technology leapfrogs itself, when they leave one job will they have the skills to obtain another, either within their existing organization or in a new one? As the Prosperity Initiative paper, *Prosperity Through Competitiveness*<sup>3</sup> notes, "Private sector spending in Canada on education and training falls well behind that of our major competitors. Despite some important efforts to improve business performance with respect to training, most business people still appear to view investment in the development of people as primarily a public responsibility, an attitude that is now coming to affect Canada's competitive prospects."

What is small business's stand on this issue? A survey by the Atlantic Entrepreneurial Institute (AEI) casts some light on the subject. Exploring the issue of the difficulty of recruiting people with necessary skills, an AEI survey found that 60% of small businesses in Atlantic Canada had difficulty finding individuals with the necessary skills for employment. When asked why particular skills were difficult to find, more than 43% linked the problems to inadequacies in training or education. Then when asked what action they had taken to overcome the difficulty, 41.1% responded that they had provided training in one form or another (9.2% provided on-the-job training; 5.8% provided external training; 10.9% provided unspecified training; 13.6% provided in-house training; and 1.6% supported employees taking courses).<sup>4</sup> These numbers show that there is some concern for providing training to employees among small businesses. Statistics Canada<sup>5</sup>, however, reports that small businesses tend to lag behind larger organizations in providing formal

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<sup>3</sup> *Op.Cit.*

<sup>4</sup> *Small Business in Canada: A Human Resources Perspective.* Atlantic Entrepreneurial Institute, 1992.

<sup>5</sup> *Human Resource Development and Training Survey, 1987*, Statistics Canada

training for their employees. Businesses with 10 or fewer employees reported having a training budget in only 13% of the cases, while organizations of 1,000 employees or more had formal training budgets in 60% of the cases. Comparing mid-sized firms with small businesses shows that while 80% of businesses with 100 or more employees provide training, less than 30% of firms with under 10 employees do the same.

The federal government is felt by small business owners to have an important role to play with regard to training. Of the AEI survey respondents, 13.7% felt that the federal government should be providing training/ education; 3.6% felt it should be funding employees for training/ retraining; 12.5% felt it should be providing funding or subsidizing small businesses for training/education; and 8.9% felt that it should be promoting and encouraging training/ retraining/ education. Thus, almost 40% of small businesses see government's role as being a, or *the*, major player in providing training and education in Atlantic Canada. The reliance on government to shoulder the burden is a recurring theme in the chapters of this report.

Building a learning culture is clearly needed in Atlantic Canada to help us deal with economic changes. Employees tend to acquire new skills and knowledge in firms where there is a strong commitment to employee training and on-the-job learning, but some estimates indicate that Canadian workers receive only about half as much on-the-job training as their US counterparts - and the US numbers are low in relation to world standards.<sup>6</sup> As *Learning Well...Living Well* comments, "(A) characteristic of learning cultures is that learning activities and institutions tend to be regarded as investments rather than costs", and "another characteristic (of learning cultures) is that social support programs, such as unemployment insurance, have strong structural links with the learning system, so that joblessness becomes an opportunity for building new skills." Clearly there is another

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<sup>6</sup> *Learning Well...Living Well. Op.Cit.*

side to the training equation; the onus cannot be forced on government alone. Businesses, like individuals, must take responsibility for their growth, development, survival and prosperity.

### *Confidence in the Region: A Challenge for Atlantic Canada*

**T**he Atlantic Canada Opportunities Agency, in order to have a finger on the pulse of the region's small business startup potential and its overall confidence in perceived opportunities, has commissioned a survey of the likelihood of starting new businesses in each of the four provinces.<sup>7</sup> The results are shown in Chart 1.1. In spite of very difficult economic conditions, **an increasing percentage of the population see themselves as either very or somewhat likely to start their own business within the next two years.** And, on the other side of the coin, the percentage of respondents who report themselves as "not at all likely" to start their own business within two years is decreasing.

The survey reaches about 1,300 Atlantic Canadians. It is a general survey of attitudes, and is not directed to entrepreneurs or small businesses. The figure of roughly ten percent of the population who expect to start their own business in the near term is encouraging. There are also some other interesting findings. The higher the education level of the respondent, the more likely he or she is to plan to start a business within the next two years. The age group 18 to 34 is the most interested in starting their own businesses. Over the age of 55, interest is negligible. The higher the income of the respondent the greater the probability of starting a business. And more than twice as many men than women feel that the next two years would be a good time to go out on their own.

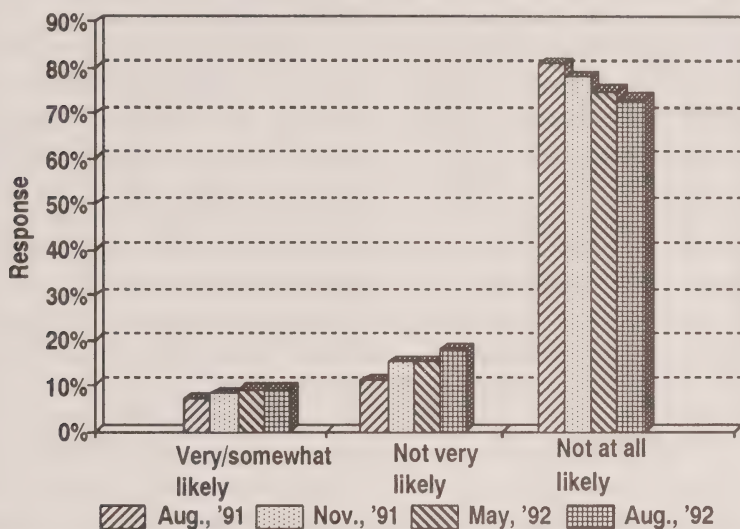
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<sup>7</sup> Corporate Research Associates Inc., Regional Omnibus Survey.

## Chart 1.1<sup>8</sup>

### *The likelihood of starting a new business*

Percent of people expressing degrees of interest in starting a business, at points between August, 1991, and August, 1992. Atlantic Canada.



## *The Competitive Structure and Position of Canada*

Actions in the Atlantic region are played out against the economic, social and political backdrop of the country as a whole. Michael Porter was commissioned, in 1991, to conduct a study of Canadian competitiveness, and it is important to understand the picture that has been painted nationally of the structure, the challenges, the problems and dangers, and the opportunities that face Canada as we look at similar issues in the Atlantic region. Porter lays the cards on the table at the start of his report: "We believe that Canada today is at an economic crossroads, and that the core

<sup>8</sup> Source: CRA Regional Omnibus Survey, August, 1992

of its economic prosperity is at risk."<sup>9</sup> Atlantic Canada, too, is at an economic crossroads; the task facing the region is to make sure it turns in the right direction and constructs a road that leads to prosperity and growth.

Porter points out the fact that "Canadians have lived in a relatively insulated environment brought about by paternalistic government policies, (and) a history of market protection". However, the country is now experiencing significant discontinuities. Market protection softened Canadian business and the disappearance of this protection now means that business will have to harden its muscles, become fitter and more competitive, lose some fat, and increase its self-discipline - a traditional middle-age crisis. The major weaknesses Porter identifies are: low productivity (Canada ties for last in the G7), high unit labour costs (which rose twice as fast as costs in the US in the decade 1979 to 1989, and faster than most other industrialized countries), systemic and persistent unemployment, lagging investment in upgrading skills of its people and technology, and an economic environment that is not supportive enough of investment. All of these themes are repeated in the chapters of this Report on the State of Small Business and Entrepreneurship in Atlantic Canada. The region cannot escape the perils and problems of the nation.

With regard to international competition, Canadian exports, critically important to the economy (second only to Germany among the G7 nations), have been in a slow decline over the past thirty years. Natural resource based exports account for almost half of all Canadian exports, but a high proportion of them are unprocessed, leaving the country vulnerable to commodity price shifts, technology substitution and lower cost competitors. In addition, Porter observes that the social preoccupation with protecting employment has translated into political actions which have worsened industries' competitiveness. He cites the Atlantic groundfish industry as an example where emphasis on employment has

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<sup>9</sup> *Canada at the Crossroads. Op. cit.*

encouraged the development of an inefficient in-shore fleet and worked against efficiency in the processing sector. (He also pointed to the danger of renewable resources such as the fisheries being mismanaged and depleted.)

What, then, are the factors in a country or region which support high and rising levels of productivity, and which provide a dynamic competitive environment for businesses? Porter notes that "there is often a marked disparity between the economic success of regions within countries". This disparity tends to be related to what he calls "clustering". Clusters involve suppliers, customers and related industries, for example Japanese electronics and Danish foods. And he makes the observation that "it is rare that an isolated industry or firm achieves international success". Within Canada, the economies of Ontario and Quebec have achieved some degree of clustering. The task for Atlantic Canada is to form regional clusters which are competitive. Vigorous competition is critical to success because, as Porter notes, research shows that domestic rivalry encourages international success "not just in large countries, but also in small and mid-sized economies". **The opportunity is there! Atlantic Canada is not precluded from success in domestic and world markets, but it must begin to act more cohesively as a region.** Porter makes the point that a major factor which makes Canada relatively unattractive for firms and industries is interprovincial barriers to trade. These barriers are easily overcome by moving operations to the United States (with associated job and income loss to Canada), from whence access to all parts of the country is obtained with no penalty.

While Porter's report touches on most of the themes that appear consistently throughout this report such as the weaknesses in training and education, the weak commitment to skill training of the private sector, the difficulty that labour, government and business have in partnering together, the inward focus of most manufacturers, and the weakness of capital financing systems, he makes two points which strike deep into the heart of the Canadian economic culture. The first is the fact that we are not demanding - of innovation, of

quality, of service. "Canadian demand conditions have not put strong pressure on firms to innovate, upgrade or anticipate international needs... Canadian industries have not typically been driven by demanding domestic customers to seek higher order competitive advantages. Canadian buyers are rarely at the leading edge in demanding innovative consumer goods. They are also reluctant... to voice complaints or to utilize consumer advocacy agencies to pressure providers of goods and services to enhance their products."<sup>10</sup>

The second point highlights what Porter calls "the old economic order", which, he says, while it has operated smoothly for decades has, in fact lost significant potential wealth. The focus has been on "dividing the pie" - a protected, warm pie, bounteous for the limited number of players who controlled it. The wealth of the nation allowed all segments - business, government and labour - to achieve their goals without sacrifice. This situation provided no incentive for these groups to work together. As Porter comments, "The motivations of different constituencies have often focused on capturing a larger share of existing wealth rather than working together to increase it... These attitudes and behaviours reflect the old competitiveness paradigm. Business acted as if economic rents would go on forever and moved to exploit the sheltered Canadian market. Labour acted as if jobs and high and rising wages could be taken for granted, because business profits were high and secure. Governments held the view that ample resources would continue to exist to fund social needs."

The challenge faced by the small business sector in Atlantic Canada must take into account the realities described by Porter. Change will have to go deep into the culture of business, of government, of labour, of consumers. Platitudes about working together, partnering, empowering, simply will not suffice. The picture is clear; the resolve needs to be equally clear.

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<sup>10</sup> *Ibid.*

## *Rebuilding confidence in Atlantic Canada*

Atlantic Canada is a region which is hardened to economic difficulty; it has had more than its share of hard times and yet has continued to survive and grow. Confederation placed great strains on the region and it made the adjustments; free trade has brought new pressures, and businesses have sprung up to take advantage of it while others have changed their focus; the current economic restructuring is affecting all parts of Canada and will take some time to work itself through the system, but the region is adapting.

This Report on the State of Small Business and Entrepreneurship in Atlantic Canada highlights a tremendous number of positive changes in the region. It also makes it clear that there are some very difficult problems to be faced and dealt with. But the overall sense of the report is that small businesses and entrepreneurship in Atlantic Canada are becoming stronger all the time and that the vitality and energy and sheer determination of Atlantic Canadians is winning the day, slowly but surely. The Report shows that there is a lot to do and that all parties have to put their shoulders to the wheel. Government is doing its part, but it cannot do it all alone. Nor should it. Entrepreneurs do not either want, or need, things handed to them on a silver platter. A shortage of resources is what spurs entrepreneurship. The entrepreneur finds the niche and moves to fill it.

Provincial governments have taken the bit in their teeth, and the strategic plans developed by Nova Scotia<sup>11</sup> and Newfoundland<sup>12</sup> are showing the way. The theme of both is that the future can be controlled and that it can be made to

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<sup>11</sup> *Creating Our Own Future: A Nova Scotia Economic Strategy*. November 1991.

<sup>12</sup> *Change & Challenge: A Strategic Economic Plan for Newfoundland and Labrador*. June 1992.

be positive if there is a concerted, consistent, strategic, focused effort to make it so. The region understands that it can control its own destiny. That realization has perhaps been forced on it by the corresponding realization that Central Canada has its own problems and less support is likely to be forthcoming, but the reaction has been an immediate and positive one.

Much of the infrastructure is in place. It needs to be strengthened and bolstered. In chapter six, the characteristics of areas which do not support entrepreneurship and growth of new business, and the characteristics of areas where new business growth is dynamic and rapid, are discussed. When Atlantic Canada is compared against these characteristics the task is clear. It must build on its already considerable strengths and overcome its areas of weakness. Dwelling on the latter will not advance the situation at all, and nor will basking in the sunshine of its existing strengths. In the ferociously competitive world of the 1990s the players must be fit and hard. There is no time for sitting back and allowing muscle to turn into flab.

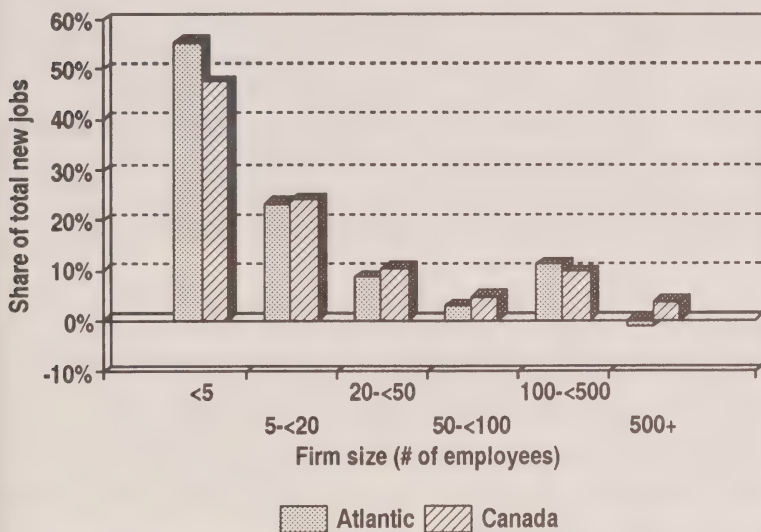
## CHAPTER 2

# SMALL BUSINESS IS BIG

Small firms in Atlantic Canada created 90% of the new jobs during the period from 1980-89. This compares with an 86.6% share for all of Canada. The smallest firms, those employing fewer than 5 people, made a significantly greater contribution to new employment than did firms of comparable size in the whole country, as Chart 2.1 shows.

Chart 2.1<sup>1</sup>  
*New jobs are created mainly by small firms*

Share of total new jobs, by size of firm, in Atlantic Canada and Canada. 1980-89



Notes: Firm size is denoted by the number of employees in each firm.

<sup>1</sup>Source: Unless otherwise stated, data in Chapter 2 is based on *Employment Dynamics* which is produced by the Small Business and Special Surveys Division of Statistics Canada

Of the 147,000 new jobs created by the regional economy, 56% originated in firms with fewer than 5 employees. In Canada, the comparable share was 47%. It is interesting to note that Atlantic Canadian firms also performed better in the categories of firms with 100-499 employees.

In the decade up to 1988, small firms - defined as those employing fewer than 100 people - had only a 76.7% share of the new jobs created during the period. This remarkable change in one year reflects two aspects of the trend toward small firms: the first year of the 1979-88 decade was the last one when small firms were a much less important factor in the economy, accounting for only 39% of the new jobs created that year; also, after a dip to 70% in their share of new jobs in 1988, small firms rebounded to their more accustomed level for the 1980s of a 113% share. [A 113% share means that for every 113 jobs created by small firms, medium-sized and large firms declined by 13.]

The pattern of overall employment growth continues to shift the distribution of jobs toward small businesses. In 1979, firms with fewer than 100 employees were responsible for 31% of total employment, and by 1988 this had risen to 36%. At the same time, firms with more than 500 employees reduced their share of total employment to 50% from 54% at the start of the period, as Table 2.1 shows.

It is noteworthy that, despite performing somewhat better than their Canadian counterparts, as shown in Chart 2.1, mid-sized firms (those employing 100 to 499 people) lost one percentage point of their share of employment during the decade, ending up with 13½%. These are the firms where the best hopes reside for rapid growth of employment - they are small enough to be flexible and dynamic, large enough to develop some momentum.

Large firms that existed in 1979 actually reduced their employment over the decade, as the table shows, by nearly 2,000 jobs, which represents the equivalent of 1.3% of all the new jobs created. Smaller firms which expanded to become large firms, however, added 40,000 jobs to the category.

**Table 2.1 <sup>2</sup>**  
**Employment patterns in Atlantic Canada**

Distribution of employment by firm size in 1979 and 1988, and the contribution of firms within each size group toward new jobs created during the intervening years. Atlantic Canada, 1979-89

Firm size (number of employees)	Employment distribution 1979		New jobs created 1980-89		Employment distribution 1988	
	(000s)	%	(000s)	%	(000s)	%
Fewer than 5	49.4	6.9	81.6	55.5	69.0	8.1
5 - 19	78.9	10.7	34.4	23.4	108.2	12.8
20 - 49	56.5	7.8	12.6	8.6	74.9	8.8
50 - 99	43.9	6.1	4.3	2.9	55.7	6.6
<b>Small firms</b>	<b>226.6</b>	<b>31.5</b>	<b>132.9</b>	<b>90.4</b>	<b>307.8</b>	<b>36.3</b>
100 - 499	105.8	14.6	16.1	10.9	114.2	13.5
500 or more	387.9	53.9	-1.9	-1.3	426.3	50.2
<b>All firms</b>	<b>720.3</b>	<b>100.0</b>	<b>147.1</b>	<b>100.0</b>	<b>848.3</b>	<b>100.0</b>

Notes: The distribution of employment is shown for 1988 instead of 1989 because this is the latest available. Employment totals are available for 1989, but their distribution by firm size is not. The size classification of new jobs and the distribution of employment in 1989 is determined by the size of the firms in 1979 or at startup. As many growing firms have to be reclassified when they grow bigger, the distribution of employment by size in 1988 does not match the distribution in 1979 plus jobs created during the period.

However, small firms in Atlantic Canada created a larger percentage of new jobs between 1980 and 1989 than in Canada as a whole. They were responsible for 90% as compared to 87% for all of Canada. Table 2.2 shows how the small-firm group has garnered a greater share of the employment during the 1980s.

<sup>2</sup>Source: *Employment Dynamics*

**Table 2.2<sup>3</sup>**  
**Employment patterns in Canada**

Distribution, by firm size in 1979 and 1988, and the contribution of firms within each size group toward new jobs created in the intervening years. Canada, 1979-89.

Firm size (number of employees)	Employment distribution 1979		New jobs created 1980-89		Employment distribution 1988	
	(000s)	%	(000s)	%	(000s)	%
Fewer than 5	627.4	6.5	1,265.0	47.3	895.6	7.5
5 - 19	1,064.8	11.0	644.3	24.1	1,474.5	12.4
20 - 49	846.2	8.8	278.4	10.4	1,160.6	9.7
50 - 99	644.4	6.7	127.9	4.8	891.0	7.5
Small firms	3,182.8	33.0	2,315.7	86.6	4,421.7	37.1
100 - 499	1,515.2	15.7	257.7	9.6	1,934.3	16.2
500 or more	4,946.2	51.3	99.6	3.7	5,564.4	46.7
All firms	9,644.2	100.0	2,672.9	100.0	11,920.4	100.0

*Notes: The distribution of employment is shown for 1988 instead of 1989 because this is the latest available. Employment totals are available for 1989, but their distribution by firm size is not. The size classification of new jobs and the distribution of employment in 1989 is determined by the size of the firms in 1979 or at startup. As many growing firms have to be reclassified when they grow bigger, the distribution of employment by size in 1988 does not match the distribution in 1979 plus jobs created during the period.*

As was demonstrated in Chart 2.1, most of the new jobs in both Canada and Atlantic Canada came from the very smallest firms employing fewer than 5 people. The second largest creator of new jobs in the 1980-89 period were firms employing between 5 and 19 people. These firms were responsible for 23%-24% of the increase in employment.

The largest firms, while declining in employment in Atlantic Canada, continued to increase for Canada as a whole, as shown by Table 2.2. Large firms in the Atlantic region still provide most of the employment: firms with between 100 and 500 employees provide work for 13% of the total workforce, compared to 50% for those employing

<sup>3</sup>Source: *Employment Dynamics*

500 or more people. The largest firms raised their employment levels only modestly, with 99,600 new jobs, representing 4% of Canada's total new jobs.

The pattern in the four Atlantic provinces differ significantly from each other. In Newfoundland, 83% of the new jobs came from firms with fewer than 5 employees, while in Nova Scotia, this group created only 47% of the new jobs. In New Brunswick, these smallest firms created 54% of the jobs and in Prince Edward Island 51%. Table 2.3 contrasts the percentage of jobs created with the distribution of firms by size.

Table 2.3 <sup>4</sup>  
*How the provinces fare in job creation*

The percentage of job creation by size of firm and the percentage of firms by size for each province.								
Size of firm (number of employees)	Newfound- land and Labrador		Prince Edward Island		Nova Scotia		New Brunswick	
	For each firm size, share of total:							
	firms	new jobs	firms	new jobs	firms	new jobs	firms	new jobs
	%							
Less than 5	78.0	82.6	75.4	51.0	70.4	47.4	71.7	54.0
5 - 19	12.8	25.8	13.5	23.0	17.1	22.6	16.7	23.4
20 - 49	3.2	5.1	3.9	5.0	4.6	10.5	4.2	8.6
50 - 99	1.5	2.1	1.6	3.0	2.3	0.9	2.1	5.9
Small firms	95.5	115.6	94.4	82.0	94.4	81.4	94.7	91.9
100 - 499	2.3	6.4	2.4	14.0	3.2	12.8	2.9	10.0
More than 500	2.2	-22.0	3.2	4.0	2.4	5.8	2.4	-1.9
All firms	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>4</sup>Source: *Employment Dynamics*.

In each of the four provinces firms with fewer than 5 employees represent more than 70% of the total firms, with a high of 78% in Newfoundland and Labrador and a low of 70% in Nova Scotia. In Newfoundland and Labrador the largest firms lost the equivalent of 22% of the total number of new jobs created. In New Brunswick, this group also lost ground, losing 2% of the new jobs. In Prince Edward Island and Nova Scotia, companies with more than 500 employees contributed modestly, with a share of new employment of 4% and 6% respectively.

At the beginning of the decade, in 1979, 93% of Atlantic Canada's businesses were small firms. By the end, in 1988, this had risen to 95%, with all the increase occurring in the very smallest size. In Canada as a whole, small firms are even more prevalent, representing 99% of all firms and providing 37% of all employment. In Atlantic Canada, firms with fewer than 5 employees went from 69% to 73% of all firms. All other sizes declined in proportional share although they all increased in absolute number of firms.

During this time period, the number of firms increased by 50% going from 56,184 to 84,136. Within their size classes the largest firms increased the least, 3%, causing their share of the total number of firms to drop by a third, to 2.4% from 3.5%. At the same time, the smallest firms increased the most, 58%, increasing their share of the total number of firms to 73% from 69%, as Table 2.4 demonstrates.

**Table 2.4<sup>5</sup>**  
**The big surge in the number of small firms**

The number and percentage of firms in each size class at the beginning and at the end of the time period between 1979 and 1988. Atlantic Canada.

Size of firm (number of employees)	Number of firms, 1979	Size share of total	Number of firms, 1988	Size share of total
		%		%
Fewer than 5	38,975	69.4	61,422	73.0
5 - 19	9,314	16.6	13,190	15.7
20 - 49	2,548	4.5	3,436	4.1
50 - 99	1,187	2.1	1,654	2.0
<b>Small firms</b>	<b>52,024</b>	<b>92.6</b>	<b>79,702</b>	<b>94.8</b>
100 - 499	2,169	3.9	2,378	2.8
500 or more	1,991	3.5	2,056	2.4
<b>All Firms</b>	<b>56,184</b>	<b>100.0</b>	<b>84,136</b>	<b>100.0</b>

*Note: Firms are classified according to the number of people they employ when they started in business, or in 1979 if they already existed then. Employment totals are available for 1989, but their distribution by firm size is not. The distribution for 1988 is the latest available.*

The statistics on job creation depend heavily on the mix of industries in any region or country. In particular, the employment patterns in government-controlled institutions are very different from those in the private sector. In order to understand these distinctions better, it is helpful to distinguish between the funded sector and the market sector of the economy. This allows for the separation of those industries which are not dependent upon market acceptance of their products for growth. Included in this group are public administration and community services (which includes education and health and welfare).

The role of the funded sector in small and big firms represents a striking contrast. In small firms in the Atlantic region, only 11% of the jobs are in the funded sector. The

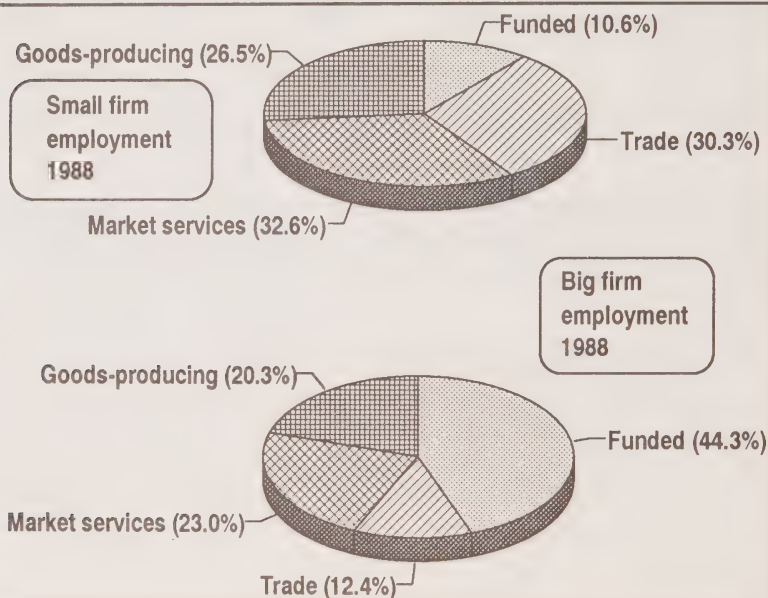
<sup>5</sup>Source: *Employment Dynamics*.

rest are in the market sector, as Chart 2.2 shows, split between goods-producing industries (26%), retail and wholesale trade (30%) and market services (everything from barbers, through restaurants and hotels to business consultants), which accounts for 33% of employment in small firms.

**Chart 2.2<sup>6</sup>**

***Jobs are more evenly distributed in small than big firms***

Distribution of employment between the four major sectors, for big and small firms. Atlantic Canada, 1988



Notes: Small firms employ fewer than 100 people.

The situation in large firms is quite different. The funded sector provides 44% of large-firm employment, while goods-producing industries provide 20%, market services 23% and trade only 12% of the employment.

<sup>6</sup>Source: *Employment Dynamics*

When the market sector is isolated from the funded sector for analysis, the picture is dramatically different from that of the two sectors combined. Within the market sector, small firms provide almost 48% of total employment. In other words, small firms in the market sector employ about the same number of people in the region as big and mid-sized firms combined. The distribution of employment in this vital sector is shown in Table 2.5.

*Table 2.5<sup>7</sup>*  
**The market sector in Atlantic Canada**

Employment in 1988 and job gains during 1980-1989 in the market sector, by size of firm.  
 Atlantic Canada.

Size of firm (number of employees)	Employment, 1988		New jobs, 1980-89	
	(000s)	%	(000s)	%
Fewer than 5	60.2	10.4	72.0	74.4
5 - 19	100.4	17.4	29.8	30.8
20 - 49	68.2	11.8	9.1	9.4
50 - 99	46.7	8.1	1.9	2.0
<b>All small firms</b>	<b>275.5</b>	<b>47.8</b>	<b>112.8</b>	<b>116.6</b>
100 - 499	82.4	14.3	7.1	7.3
500 or more	218.6	37.9	-23.2	-23.9
<b>All firms</b>	<b>576.5</b>	<b>100.0</b>	<b>96.7</b>	<b>100.0</b>

*Notes: The market sector includes all industries apart from those in the funded sector (which includes public administration, education and health and welfare). They derive their revenues from competing in a marketplace.*

The employment contraction of the largest firms in the market sector during the 1980-1989 period (these firms employed 23,200 fewer at the end of the period than they had at the beginning of it) has resulted in smaller firms being responsible for 117% of new job creation. Firms employing fewer than 5 created 74% of the new jobs.

<sup>7</sup>Source: *Employment Dynamics*

The situation is less extreme in Canada as a whole, where the large firms (with more than 100 employees) lost the equivalent of 3% of the total new jobs during the period, as Table 2.6 shows.

**Table 2.6<sup>8</sup>**  
***The market sector in Canada***

Employment in 1988 and job gains during 1980-89 in the market sector, by size of firm.  
Canada

Size of Firm (number of employees)	Employment, 1988		New jobs, 1980-88	
	(000s)	%	(000s)	%
Fewer than 5	793.9	8.8	1,134.7	57.1
5 - 19	1,358.3	15.0	581.7	29.3
20 - 49	1,075.7	11.9	238.2	12.0
50 - 99	787.3	8.7	92.5	4.6
<b>All small firms</b>	<b>4,014.6</b>	<b>44.4</b>	<b>2,047.1</b>	<b>103.0</b>
100 - 499	1,542.5	17.1	136.3	6.9
500 or more	3,477.3	38.5	-196.5	-9.9
<b>All firms</b>	<b>9,035.0</b>	<b>100.0</b>	<b>1,986.9</b>	<b>100.0</b>

*Notes: The market sector includes all industries apart from those in the funded sector (which includes public administration, education and health and welfare). They derive their revenues from competing in a marketplace.*

Looking at the other side of the coin, Table 2.7 shows that in the funded sector, 76% of the region's employment is in firms with more than 500 employees and only 12% in firms with fewer than 100. This contrasts with Trade (which includes retail and wholesale trade employers), where 58% of the employment is in small firms and 28% is in the largest firms, as Table 2.7 shows. The goods-producing sector is more evenly divided with 40% of the employment in the largest firms.

<sup>8</sup>Source: *Employment Dynamics*

**Table 2.7<sup>9</sup>**  
**Employment distribution by size and sector**

Percentage of employment in each size category within the four major sectors. Atlantic Canada, 1988

Size of firm (number of employees)	Goods- producing	Trade	Market services	Funded sector
	%	%	%	%
Fewer than 5	9.9	11.1	9.9	3.2
5 - 19	13.8	23.0	16.4	2.9
20 - 49	10.1	15.0	11.0	2.5
50 - 99	8.6	9.0	7.1	3.3
<b>All small firms</b>	<b>42.4</b>	<b>58.0</b>	<b>44.4</b>	<b>11.9</b>
100 - 499	17.1	13.8	12.3	11.7
500 or more	40.5	28.2	43.3	76.4
<b>All firms</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The funded sector has about one-third of the jobs in each of the provinces. The proportion is highest in Newfoundland and Labrador at 35% and lowest in New Brunswick at 30%. New Brunswick has the highest percentage of employment in the goods-producing group of industries, at 25%; the other three provinces range from 21% in Newfoundland and Labrador, 21% in Nova Scotia to 20% in Prince Edward Island. Nova Scotia, however, has the highest percentage employed in market services, at 28%, while Newfoundland and Labrador has the lowest, at 23%. Table 2.8 describes the distribution of employment between sectors in each province.

<sup>9</sup> Source: *Employment Dynamics*.

**Table 2.8 <sup>10</sup>**  
**Provincial sectoral employment**

Distribution of employment within each province by sector. Atlantic Canada, 1988

Province	Goods-producing	Trade	Market services	Funded sector
Newfoundland & Labrador	21.5%	19.9%	23.2%	34.8%
Prince Edward Island	20.0%	17.8%	27.9%	33.6%
Nova Scotia	21.0%	18.4%	28.3%	32.0%
New Brunswick	25.3%	18.6%	25.6%	30.0%
Atlantic region	22.4%	18.7%	26.4%	32.0%

It is apparent that big organizations have been a positive influence on job creation only in the funded sector. As Chart 2.3 shows, big firms lagged small firms' share of new jobs by significant margins in every other sector. Small firms in the market sector as a whole, which includes goods-producing industries as well as wholesale and retail trade and market-based services, contributed 77% of the total new jobs created in the period, as is shown by Chart 2.3.

Big firms in the market sector accounted for job losses equivalent to 11% of the total new jobs created. Within the market sector, small firms made the biggest contribution in market services, with 33% of the total. Job losses in the big firms in the market sector were concentrated in goods-producing industries, with the equivalent to 11% of the total change in jobs; in the other two industries within the market sector - trade and market services - the big firms broke even, with losses in one counterbalanced by gains in the other.

<sup>10</sup> Source: *Employment Dynamics*

Chart 2.3<sup>11</sup>

## Big firms are strong only in the funded sector

Share of the total number of jobs created for each category of firm-size within each sector.  
Atlantic Canada, 1980-89



Notes: Small firms are those employing fewer than 100 people.

\*\* The market sector shown in the graph is the sum of the goods-producing, trade and market services sector.

Small firms earned their major share of new jobs because they grew at a remarkable rate. The growth rates were most spectacular in the smallest firms, those employing fewer than 20 people, which almost doubled in the course of the decade to 1989. The next highest growth rates were among the balance of small firms, employing 20 to 99 people, which grew at 17%, compared to 15% for the mid-sized firms and a decline of ½% for the largest firms employing more than 500 people. When these are analyzed by sector, it becomes apparent that the most remarkable growth rate of all was among the smallest firms in the funded sector, which grew

<sup>11</sup>Source: *Employment Dynamics*

by 138% during the decade, as Table 2.9 shows. Admittedly, this was from a very small base of employment, but it nonetheless illustrates how the environment needs small firms in all sectors.

*Table 2.9<sup>12</sup>*  
*Period Growth in Jobs by Firm Size and Sector*

The percentage increase in jobs for each size category within the major sectors. Atlantic Canada, 1980-89

Sector	Fewer than 20	20-99	Fewer than 100	More than 100	100-499	500 and more
	%					
Goods producing	88.3	1.4	45.8	-13.9	-7.2	-17.0
Trade	74.6	4.8	45.8	9.1	1.5	13.3
Market services	95.7	29.7	69.3	-5.4	38.2	-14.5
Funded services	138.2	45.7	86.6	15.1	32.3	12.3
Total	91.8	16.8	58.6	2.9	15.2	-0.5

In the market sector, market services increased 96%, goods-producing 88% and trade 75%. By contrast, the largest firms showed positive growth only in trade and, as might be expected, the funded sector.

### *Industry break-out*

Small firms are spread evenly throughout all sectors of the economy. As Table 2.10 shows, all but 15 of the businesses in the Primary industry are small; even in the sector in which small firms are least represented, mining, more than 68% of the businesses are nonetheless small. Small businesses constitute less than 90% of the total in only four

<sup>12</sup>Source: *Employment Dynamics*.

industries: manufacturing, wholesale, finance, insurance and real estate and public administration.

*Table 2.10<sup>13</sup>*  
***Distribution of firms in the Atlantic region,  
 by industry and size***

Number and distribution of all firms and of small firms, by industry, Atlantic region, 1988.

Industry	Number of firms 1988	Industry share of total	Number of small firms	Industry share of total	Small firm share of Industry
		%		%	%
Primary	9,351	11.1	9,336	11.7	99.8
Mining	295	0.4	201	0.3	68.1
Manufacturing	4,861	5.8	3,492	4.4	71.8
Construction	9,365	11.1	9,179	11.5	98.0
Goods-producing	23,872	28.4	22,208	27.9	93.0
Wholesale	4,653	5.5	4,039	5.1	86.3
Retail	13,790	16.4	13,372	16.8	97.0
Trade	18,443	21.9	17,411	21.9	94.4
T,C, & U	3,910	4.6	3,662	4.6	93.7
F,I & RE	3,440	4.1	3,014	3.8	87.6
P & B Services	22,332	26.5	21,655	27.2	97.0
Market Services	29,682	35.3	28,331	36.6	95.4
Community Services	7,208	8.6	6,908	8.7	95.8
Public Administration	703	0.8	624	0.8	88.8
Funded Sector	7,911	9.4	7,532	9.5	95.2
Unclassified	4,228	5.0	4,220	5.3	99.8
<b>ALL INDUSTRIES</b>	<b>84,136</b>	<b>100.0</b>	<b>79,702</b>	<b>100.0</b>	<b>94.7</b>

Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and Business Services (P & B services). Community services includes education, health and welfare.

<sup>13</sup>Source: *Employment Dynamics*

Businesses employing fewer than 100 persons are most under-represented in mining and manufacturing and over-represented in primary industries, construction, retail trade and personal and business services. Personal and business services has the most firms, with almost 27% of all the businesses in the region.

The picture naturally changes when jobs, instead of businesses are analyzed. As Table 2.11 shows, some industries have an extraordinarily high concentration of employment in small firms - like primary industries and construction, with about 80% each - but others do not favour small firms at all - like mining (16%), manufacturing (26%) and finance, insurance and real estate (32%), to name three.

In terms of the four major sectors, small firms are most prevalent in retail and wholesale trade, where they account for 58% of the employment. The next strongest representation is in market services, at 44%. Small firms have a strong presence in personal and business services, with 58% of the employment. Looking at the distribution of jobs, by industry, among small firms, the largest concentrations are in personal and business services and retail trade, with 12% and 11% respectively of all employment in small firms. For big firms in the region, the largest concentrations are in public administration and personal and business services, with 9% and 7% respectively of total employment in big firms.

**Table 2.11 <sup>14</sup>**

***Distribution of employment in the Atlantic region,  
by industry and size***

Number and distribution of employment in all firms and in small firms, by industry. Atlantic Canada, 1988

Industry	Number of jobs 1988	Industry share of total	Number of small-firm jobs	Industry share of total	Small firm share of industry
	(000s)	%	(000s)	%	%
Primary	18.5	1.1	15.1	2.5	81.6
Mining	11.6	0.7	1.9	0.3	16.4
Manufacturing	118.0	7.0	30.3	4.9	25.7
Construction	42.0	2.5	33.3	5.4	79.3
Goods-producing	190.1	11.2	80.6	13.2	42.4
Wholesale trade	38.2	2.3	23.8	3.9	62.3
Retail trade	120.8	7.1	68.4	11.2	56.6
Trade	159.0	9.4	92.2	15.1	58.0
T, C & U	60.4	3.6	14.4	2.4	23.8
F, I & RE	38.1	2.3	12.3	2.0	32.3
P & B Services	125.2	7.4	72.6	11.9	58.0
Market services	223.7	13.2	99.3	16.2	44.4
Community services	114.8	6.8	26.3	4.3	22.9
Public Administration	157.0	9.3	6.0	1.0	3.8
Funded sector	271.8	16.1	32.3	5.3	11.9
Non classified	3.7	0.2	3.4	0.6	91.9
<b>ALL INDUSTRIES</b>	<b>848.3</b>	<b>100.0</b>	<b>307.8</b>	<b>100.0</b>	<b>36.3</b>

*Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and Business Services (P & B services). Community services includes education, health and welfare.*

There is a strong correlation between the degree of small-firm dominance in an industry and employment growth rates. As Table 2.12 shows, the fastest growth rates over the decade are generally in the industries where small firms have the highest employment share. The main exception is

<sup>14</sup> Source: *Employment Dynamics*

community services, which has the second highest growth rate and the ninth highest small-firm presence; the other is construction, where the growth rate was eighth highest and the small-firm presence second. Almost all the other industries ranked within two rungs in each of the two measures.

*Table 2.12<sup>15</sup>*  
*Where the growth is*

Growth rates of small and big firms over the period, by industry, and share of total jobs in 1988, by industry. Atlantic Canada, 1980-89 and 1988

Industry	Employment growth rate, 1980-89		
	Small firms	Big firms	All firms
Primary	62.4%	0.0%	47.9%
Mining	100.0%	-19.8%	-5.2%
Manufacturing	44.7%	-9.0%	1.9%
Construction	37.9%	-42.9%	8.8%
Goods-producing	45.8%	-13.9%	6.1%
Wholesale trade	29.5%	-7.3%	15.0%
Retail trade	52.6%	14.4%	35.1%
Trade	45.8%	9.1%	29.6%
T,C & U	50.4%	-10.9%	0.3%
F, I & RE	83.3%	0.8%	21.2%
P & B Services	71.4%	-2.3%	37.4%
<b>Market services</b>	<b>69.3%</b>	<b>-5.4%</b>	<b>22.5%</b>
Community services	98.4%	26.1%	41.9%
Public Administration	40.4%	9.8%	10.8%
Funded sector	86.6%	15.1%	22.5%
<b>ALL INDUSTRIES</b>	<b>58.7%</b>	<b>2.9%</b>	<b>20.4%</b>

Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and Business Services (P & B services). Community services includes education, health and welfare.

Small firms employ fewer than 100 people.

Looking at growth rates in small firms only, mining has the highest growth rate, followed by community services then

<sup>15</sup>Source: *Employment Dynamics*

finance, insurance and real estate, despite their low concentration of small firms.

As small firms have expanded their role steadily throughout the past decade, they have changed the distribution of employment significantly, as Table 2.13 shows.

*Table 2.13<sup>16</sup>*

***Distribution of jobs by industry in Atlantic Canada***

Distribution by industry of employment in 1979 and 1988 and the contribution of firms within each sector toward new jobs created in the intervening years. Atlantic Canada, 1979-89.

Industry	Employment distribution 1979		New jobs created 1980-89		Employment distribution 1988	
	(000s)	%	(000s)	%	(000s)	%
Primary	12.1	1.7	5.8	3.9	18.5	2.2
Mining	11.5	1.6	-0.6	-0.4	11.6	1.4
Manufacturing	115.3	16.0	2.2	1.5	118.0	13.9
Construction	40.8	5.7	3.6	2.4	42.0	5.0
Goods-producing	179.7	25.0	11.0	7.4	190.1	22.5
Wholesale	34.7	4.8	5.2	3.5	38.2	4.5
Retail	92.5	12.8	32.5	22.1	120.8	14.2
Trade	127.2	17.6	37.7	25.6	159.0	18.7
T,C & U	61.7	8.6	0.2	0.1	60.4	7.1
F,I & RE	31.6	4.4	6.7	4.8	38.1	4.5
P & B Services	94.0	13.0	35.2	24.0	125.2	14.8
Market Services	187.3	26.0	42.1	28.9	223.7	26.4
Community Services	84.0	11.7	35.2	24.0	114.8	13.5
Public Administration	140.0	19.4	15.1	10.3	157.0	18.5
Funded Sector	224.0	31.1	50.3	34.3	271.8	32.0
Unclassified	2.0	0.3	5.9	4.0	3.7	0.4
<b>Total</b>	<b>720.2</b>	<b>100.0</b>	<b>147.0</b>	<b>100.0</b>	<b>848.3</b>	<b>100.0</b>

Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and Business Services (P & B services). Community services includes education, health and welfare.

<sup>16</sup>Source: *Employment Dynamics*

The goods-producing industries declined from 25% in 1979 to 22% in 1989. The trade sector and the funded sector countered with a gain of one percentage point each and the unclassified firms gained the most.

The retail sector must be added to those that were major job creators. Of the 147,000 new jobs, 22.1% came from retail. Personal and business services and community services each contributed 24%. Transportation, Communications and Utilities was the only industry to show lower employment in 1988 than in 1979, although mining increased by only a fraction.

The employment distribution over industry sectors for the Atlantic region is similar to that in Canada. The largest differences are in public administration, in which Atlantic Canada has almost twice the representation found in the rest of Canada; there is also a big difference in manufacturing where it accounts for 14% of employment in the region compared to 18% in the country. Finally, in the finance, insurance and real estate industry, and in community services, the region's share of employment lags that of the country as a whole.

Although 83,100 manufacturing jobs were added in Canada between 1980 and 1989, manufacturing's share of employment fell from 22% to 18%. At the same time, personal and business services showed the largest increase in the number of jobs, going from 14% to 17% of employment or from 1.33 million to 2.02 million jobs. The most significant job creator after this was community services; these two, between them, created almost 50% of the new jobs in Canada, as Table 2.14 shows. The retail sector was the next largest creator of new jobs, with 16%. Construction, with a 7% share of new job creation, followed retail.

The very large public administration sector in Atlantic Canada can be explained by the presence of four provincial governments and a major contingent from the Navy. The Atlantic region also has twice the proportional employment in the primary sector but matches Canada in both construc-

tion and transportation, communications and utilities. This is shown on Table 2.14.

It should be noted that within Canada, 22% of all the jobs there were in 1989 were created between 1979 and 1989.

**Table 2.14 <sup>17</sup>**  
***Distribution of jobs by industry in Canada***

Distribution by industry of employment in 1979 and 1988 and the contribution of firms within each industry toward new jobs created in the intervening years. Canada, 1979-89

Industry	Employment distribution 1979		New jobs created 1980-89		Employment distribution 1988	
	(000s)	%	(000s)	%	(000s)	%
Primary	90.6	0.9	39.9	1.5	132.3	1.1
Mining	181.6	1.9	2.6	0.1	190.0	1.6
Manufacturing	2,114.5	21.9	83.1	3.1	2,194.5	18.4
Construction	455.1	4.7	179.8	6.7	595.1	5.0
Goods-producing	2,841.8	29.4	305.4	11.4	3,111.9	26.1
Wholesale	550.6	5.7	167.2	6.3	687.3	5.8
Retail	1,187.2	12.3	419.6	15.7	1,553.1	13.0
Trade	1,737.8	18.0	586.8	22.0	2,240.4	18.8
T, C & U	859.4	8.9	14.1	0.5	834.1	7.0
F, I & RE	595.6	6.2	203.1	7.6	767.1	6.4
P & B Services	1,333.4	13.8	774.5	29.0	2,019.1	16.9
Market services	2,788.4	28.9	991.7	37.1	3,620.3	30.3
Community services	1,309.8	13.6	547.0	20.5	1,781.4	14.9
Public Administration	943.5	9.8	138.7	5.2	1,104.1	9.3
Funded sector	2,253.3	23.3	685.7	25.7	2,885.5	24.2
Unclassified	22.8	0.2	103.0	3.8	62.4	0.5
<b>Total</b>	<b>9,644.1</b>	<b>100.0</b>	<b>2,672.6</b>	<b>100.0</b>	<b>11,920.5</b>	<b>100.0</b>

Notes: The abbreviations are for Transportation, Communications and Utilities (T, C & U), Finance, Insurance and Real Estate (F, I & RE) and Personal and Business Services (P & B services). Community services includes education, health and welfare.

<sup>17</sup>Source: *Employment Dynamics*

Despite the growth of employment in small firms, the average number of jobs per small firm has declined from 4.3 per firm in 1979 to 3.9 in 1988, as Table 2.15 shows.

**Table 2.15<sup>18</sup>**  
***Atlantic small firms are becoming smaller***

Average employment per firm for small firms and for large firms, at the beginning and end of the period from 1979 to 1988. Atlantic Canada.

Industry	Average number of jobs, 1979			Average number of jobs, 1988		
	Small	Big	Total	Small	Big	Total
Primary	1.8	215.4	2.3	1.6	226.7	2.0
Mining	8.5	87.8	41.2	9.5	103.2	39.3
Manufacturing	9.2	61.7	28.6	8.7	64.1	24.3
Construction	3.8	55.5	5.7	3.6	46.8	4.5
Goods producing	4.1	63.5	10.7	3.6	65.8	8.0
Wholesale trade	6.5	29.3	9.4	5.9	23.5	8.2
Retail trade	4.8	130.2	8.5	5.1	125.4	8.8
Trade	5.2	70.7	8.7	5.3	64.7	8.6
T, C & U.	4.5	244.7	22.6	3.9	185.5	15.4
F, I & RE	3.7	62.6	12.6	4.1	60.6	11.1
P & B services	4.4	84.7	7.8	3.4	77.7	5.6
Market services	4.3	107.1	10.8	3.5	92.1	7.5
Community services	3.8	223.9	16.5	3.8	295.0	15.9
Public Administration	9.5	1439.4	238.5	9.6	1911.4	223.3
Funded sector	4.4	519.1	39.5	4.3	631.9	34.4
Non classified	1.0	33.3	1.0	0.8	37.5	0.9
<b>TOTAL</b>	<b>4.3</b>	<b>118.7</b>	<b>12.8</b>	<b>3.9</b>	<b>121.9</b>	<b>10.1</b>

Notes: The abbreviations are for Transportation, Communications and Utilities (T,C & U), Finance, Insurance and Real Estate (F,I & RE) and Personal and Business Services (P & B services). Community services includes education, health and welfare.

Because firms are categorized by size based on their national size, it is not anomalous to have a firm employing more than 100 people with fewer than 100 employees in the region.

<sup>18</sup>Source: *Employment Dynamics*

The decrease in the average size of the small firms is largely due to the high proportion of startups among small firms. For larger firms, there is less of a pattern, although the average larger firm began with 118.7 jobs and ended with 121.9. The average number of employees in firms employing more than 100 people in primary industries, mining and manufacturing each increased. Construction decreased, as did transportation, communications and utilities, wholesale trade, retail trade, finance, insurance and real estate and business and personal services. In the large funded sector, both public administration and community services increased their average employment significantly.

Average employment in small firms grew in mining, retail and public administration. In community services it remained constant at 3.8 jobs and in all the other sectors, the average small firm became smaller. In large firms, there was an increase in size in the primary sector, in mining, manufacturing, community services and public administration.

### *A profile of the self-employed*

Most of the people who declare income from self-employment do not rely on that income for the bulk of their earnings. In 1989, the most recent year for which tax data is available, there were 165,576 people in the Atlantic region who had self-employed earnings: out of total earnings of \$28,698, these people earned an average of \$8,267 (or 29%) from self-employment. In 1988, there were about one thousand fewer self-employed people and they earned, on average, \$8,373 from self-employment out of total earnings of \$26,998. 1989 was therefore a tough year for the self-employed who saw their earnings from this source drop by a bit more than 1%, while their total income grew 6%.

It is, of course, problematic to place too much emphasis on changes like this over one year. However, it is notable that the number of self-employed males declined over the

year by about 1,000, while the number of females rose by about 2,000, as Table 2.16 shows.

**Table 2.16 <sup>19</sup>**  
**Comparison of the self-employed 1988/89**

Comparison between 1988 and 1989 of the number of self-employed, their average earnings from all sources and from self-employment and the percentage of their total earnings represented by income from self-employment, by age and sex. Atlantic Canada.

	1989	1988	Difference
<i>Number of self-employed</i>			
Males	121,081	121,967	(886)
Females	44,495	42,547	1,948
Under 35	47,632	49,464	(1,832)
35 and over	117,944	115,050	2,894
All	165,576	164,514	1,062
<i>Average earnings from all sources</i>			
Males	\$32,519	\$30,526	\$1,993
Females	\$18,115	\$16,886	\$1,229
Under 35	\$20,491	\$19,946	\$545
35 and over	\$31,726	\$30,030	\$1,696
All	\$28,698	\$26,998	\$1,699
<i>Average earnings from self-employment</i>			
Males	\$9,760	\$9,858	(\$97)
Females	\$4,205	\$4,121	\$83
Under 35	\$7,095	\$7,130	(\$35)
35 and over	\$8,743	\$8,906	(\$163)
All	\$8,267	\$8,373	(\$106)
<i>Self-employed earnings as a percent of total earnings</i>			
Males	30.0%	32.3%	
Females	23.2%	24.4%	
Under 35	34.6%	35.7%	
35 and over	27.6%	29.7%	
All	28.8%	31.0%	

<sup>19</sup> Source: *Demographic Profile of Self-employment, Atlantic Canada, 1989*, Small Business and Special Surveys Division, Statistics Canada

The earnings of females are consistently less than those of males (they average 43% of the males' self-employed income and 56% of their total income); this would have the effect of lowering average self-employed income without affecting total income quite so severely.

The source of this decline in the male proportion of self-employed income is most likely found in Table 2.17, which shows that about 21% of total self-employed income was derived from fishing, compared to 25% in 1988.

**Table 2.17<sup>20</sup>**  
***Where the self-employed earn their income***

Distribution of total self-employed income between the six highest sources of income, by gender and by age. Atlantic Canada, 1989

Type of self-employed income	Share of each type of income in self-employed earnings of:				
	Males	Females	All self-employed	Under 35	35 and over
Business	27.9%	46.3%	30.4%	30.0%	30.5%
Professional	40.8%	32.9%	39.8%	26.9%	44.0%
Commission	3.4%	3.1%	3.3%	2.8%	3.5%
Farm	4.4%	2.1%	4.1%	3.7%	4.2%
Fishing	22.6%	9.8%	20.8%	37.6%	15.3%
Rental	1.0%	5.7%	1.6%	-1.2%	2.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

As people who derive self-employed income from fishing are predominantly males, this indicates the effects of a decline in activity in the fishing industry that year. The proportion of self-employed income derived from other sources rose evenly everywhere else except for rental income, which drained 3% from net income in 1988, but contributed almost 2% in 1989.

<sup>20</sup> Source: *Demographic Profile of Self-employment, Atlantic Canada, 1989*

When total earnings from all sources are examined in the context of the level of income from self-employment, Table 2.18 shows that the higher the income from self-employment, the higher the total income: people who earned \$25,000 or more from self-employment earned a total income of 103% of the average for all self-employed, while people with self-employed earnings of less than \$25,000 earned total income of less than three-quarters of the average for all self-employed.

*Table 2.18<sup>21</sup>*  
***What the self-employed earn***

Average net income of the self-employed, by age and by sex, whose gross earnings from self-employment fall within the range shown. Also, each category expressed as a percent of the average for all self-employed people. Atlantic region, 1989

Age or sex	Range of gross self-employed earnings			
	Less than \$10,000	\$10,000 - \$24,999	\$25,000 or more	Total
<i>Average of total net earnings</i>				
Males	\$21,480	\$22,919	\$33,641	\$32,351
Females	\$13,628	\$16,659	\$18,597	\$18,088
Under 35	\$12,060	\$17,189	\$21,418	\$20,491
35 and over	\$21,745	\$22,760	\$32,943	\$31,726
All	\$19,292	\$20,823	\$29,641	\$28,518
<i>Percent of average for all self-employed</i>				
Males	75.3%	80.4%	118.0%	113.4%
Females	47.8%	58.4%	65.2%	63.4%
Under 35	42.3%	60.3%	75.1%	71.9%
35 and over	76.3%	79.8%	115.5%	111.2%
All	67.6%	73.0%	103.9%	100.0%

Notes: The category for incomes less than \$10,000 includes those with negative earnings.

This table demonstrates how males and people over 35 earn significantly more than the average, while females and the young earn only 63% and 72% of the average respective-

<sup>21</sup> Source: *Demographic Profile of Self-employment, Atlantic Canada, 1989*

ly. Finally, there is a very high reliance on income from other sources for all self-employed people. People who earn less than \$10,000 from self-employment average a loss of \$2,241 from self-employment and a total of earnings from all sources of \$19,923; those who have gross self-employed earnings of \$25,000 or more average \$9,289 net income from self-employment and a total of \$29,649 from all sources.



## CHAPTER 3

# UPS AND DOWNS

**I**n 1989, the most recent year for which data is available, small firms reasserted their dominance in the field of job creation, accounting for 21,500 new jobs - or 113% of the total of 19,100 jobs created in the region. In other words, for every 113 jobs created by small firms, big firms lost 13. In 1988, large firms had gone on a hiring binge, increasing their employment by 3.2% and reducing the share of new jobs created by small firms to 63%, as Table 3.1 shows.

*Table 3.1 <sup>1</sup>*  
*The roller coaster of job creation*

New jobs created by small firms and large firms each year during the period 1979-89, and share of small firms in total job creation, Atlantic Canada

Year	Jobs created by small firms	Jobs created by large firms	Small business share of total
	(000s)	(000s)	%
1979	13.7	21.4	39
1980	5.1	0.7	88
1981	4.2	3.2	57
1982	-3.8	-10.0	28
1983	15.2	-19.6	n/a
1984	22.8	5.1	82
1985	12.4	5.5	69
1986	18.1	-5.0	138
1987	21.5	7.0	75
1988	27.3	16.1	63
1989	21.5	-2.4	113

*Notes: Small firms are those employing fewer than 100 people.*

<sup>1</sup> Source: *Employment Dynamics*

This confirms the suggestion made last year<sup>2</sup> that the surge in employment of large firms in 1988 was an aberration. In 1989, the largest firms employing 500 or more people reduced their workforce by 5,500 people, after raising it by 10,000 the year before. In fact, over the past decade, the largest firms in the region have slipped behind very gently, reducing employment by an average of somewhat less than 1,000 people a year, on the base of an initial total employment of 383,700 in 1980. By contrast, the smallest firms, employing fewer than 5 people, have grown at an amazing rate through recessions and setbacks, averaging more than 9,000 new jobs a year, or 15% a year on a base of 1980 employment of less than 50,000, as Table 3.2 shows.

Table 3.2<sup>3</sup>

***The smallest companies grow fast, the big ones decline***

Annual growth rate within each size category, by number of employees at the beginning of that year, Atlantic Canada, 1979-89

Year	Annual growth rate (%), for firms with employees numbering:						
	1-4	5-19	20-49	50-99	100-499	500+	Total
1979	17.4	2.9	3.7	2.4	6.5	4.1	5.1
1980	10.7	0.0	0.4	(0.9)	(0.3)	0.3	0.8
1981	12.5	(0.4)	(0.5)	(3.3)	0.6	0.7	1.0
1982	7.2	(3.4)	(4.6)	(5.3)	(3.1)	(1.7)	(1.9)
1983	20.2	4.6	0.6	1.4	(3.7)	(4.1)	(0.6)
1984	19.6	6.6	6.7	5.5	1.4	1.0	3.9
1985	12.8	3.4	2.9	0.2	1.3	1.1	2.4
1986	16.7	4.1	4.6	2.7	(1.2)	(1.0)	1.7
1987	17.5	6.0	3.9	4.2	3.3	0.9	3.7
1988	19.5	7.2	5.4	6.2	5.7	2.5	5.5
1989	15.4	5.3	6.3	0.7	2.7	(1.3)	2.3

Looking at these annual growth rates, it can be seen how the larger firms are, the more frequent are their years of

<sup>2</sup>The State of Small Business and Entrepreneurship in Atlantic Canada, 1991

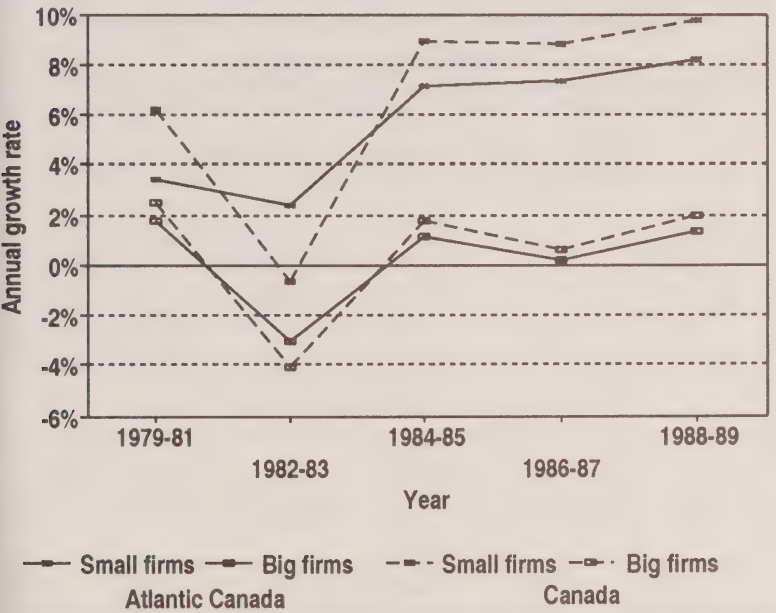
<sup>3</sup> Source: *Employment Dynamics*

decline. Smaller firms have had no negative years, except for the 1981-82 recession - and even then, the smallest firms employing fewer than 5 people kept right on growing.

Since the early 1980s, the gap between the growth rate of big and small companies has widened, as Chart 3.1 shows.

**Chart 3.1 <sup>4</sup>**  
***The widening gap between growth in small and big firms***

Comparison of annual growth rates in Canada and Atlantic Canada, for small and big firms, 1979-81, 1982-83, 1984-85, 1986-87 and 1988-89



Notes: Small firms are those employing fewer than 100 people, big firms are the remainder

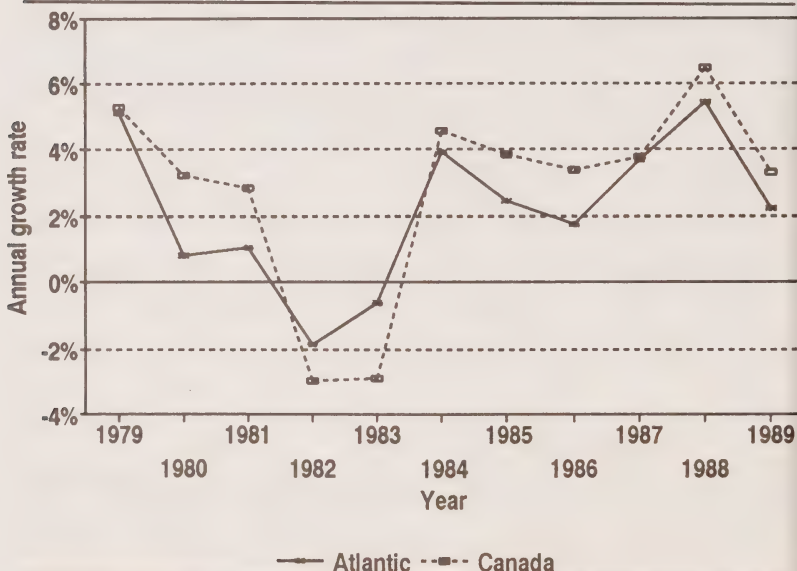
For this chart, growth rates are shown as annualized rates over a series of two-year periods. This is done because the growth rates in individual years are more volatile, particularly among big firms, which sometimes overhire and then

<sup>4</sup> Source: *Employment Dynamics*

overcorrect. The employment patterns in the years that are combined are quite similar, and the resulting annualized rates give a clearer idea of the underlying trends. The widening gap between the growth rates of small and big firms is more noticeable for Canada than it is for the Atlantic region. The growth rates for firms employing more than 100 people are remarkably consistent for both Canada and the region, but those for small firms tend to be more volatile in the country as a whole than in the region, as Chart 3.2 shows.

**Chart 3.2<sup>5</sup>**  
***Atlantic Canada grows slower in good times,  
declines less in bad times***

Comparison of annual growth in employment for all firms in Atlantic Canada and Canada, 1979-89



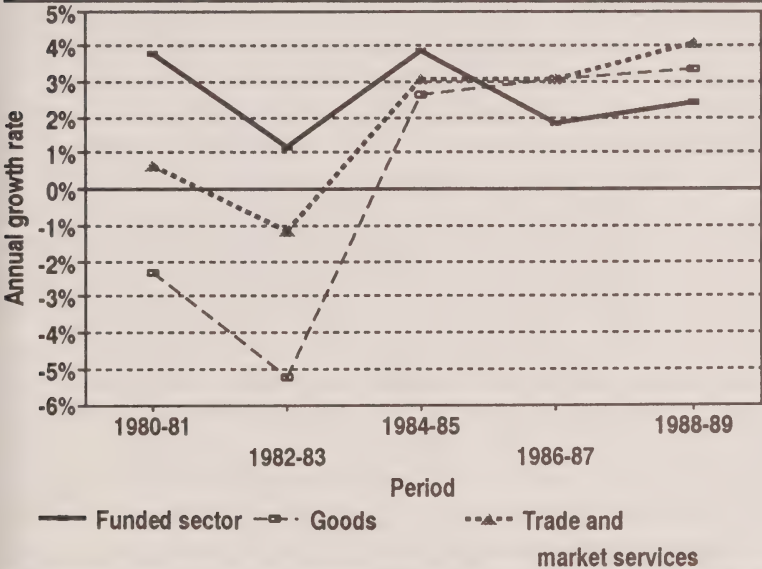
The main reason for this difference is the greater role in the region of the funded sector, which employs 32% of all

<sup>5</sup> Source: *Employment Dynamics*

workers, compared to 24% in the country as a whole. The funded sector<sup>6</sup> naturally has a much higher concentration of big employers, with 34 employees per employer in 1988, compared to 8 in the market sector, so the region's growth in employment is more closely tied to the funded sector, which is more stable, but less expansive when the economy is going well, as Chart 3.3 shows.

Chart 3.3<sup>7</sup>  
*Where the strength lies*

Annualized growth rates in employment in Atlantic Canada in the funded sector, the goods-producing sector and market services/trade, during the periods 1980-81, 1982-83, 1984-85, 1986-87 and 1988-89



<sup>6</sup> The funded sector includes public administration and community services (education, health and welfare and religion), which are almost entirely funded by governments or their agencies and which do not derive their income from a marketplace. The market sector is the balance of industries.

<sup>7</sup> Source: *Employment Dynamics*

It is notable that the goods-producing industries in Atlantic Canada did very well after the 1982-83 recession, recovering to generate almost as much employment growth as trade and market services. The goods-producing industries did well in Canada, too, but not to the same extent.

### *Births, deaths and survivors*

**T**he remarkable contribution of small firms to the creation of employment is based largely on the formation of new business ventures. It is not clear at this point just how many of these new ventures are a direct result of the downsizing of big firms, which buy from suppliers some of the products and services that they previously provided "in-house". The downsizing phenomenon, however, certainly does not explain all of the growth in employment in small firms, because there has been - and continues to be - a powerful change in the social climate that is encouraging people to become self-employed. Many of them start very small. Some never grow, but some move on to build substantial businesses.

This is abundantly clear in examining the statistics for births, deaths and survivors. This terminology can be somewhat misleading, as births are often not births at all and deaths are equally often not dead. Births are described in the statistics as "newly identified". These are generally new ventures, but they are sometimes existing businesses that have taken on a new form or have started reporting to government agencies differently. They may also be firms that did not register when they started and are catching up on their paperwork. Deaths, by the same token, are sometimes firms that are continuing in another form that has escaped the attention of Statistics Canada. They are described as "no longer identified". Some of them have been absorbed by other businesses, others stop filing for whatever reason, even though they are continuing their business, and still others are merely making changes in their corporate structure.

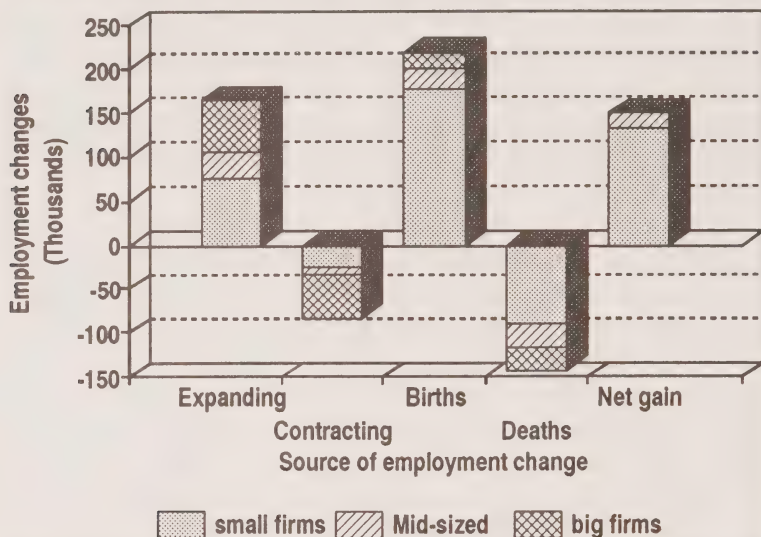
Despite these difficulties, the statistics on "births" and "deaths" offer useful insights into the dynamics of small business in Atlantic Canada. In the decade ending in 1989, the net new jobs created were 147,000, but this represents the net gain after some spectacular ups and downs. From a starting point of 720,000 jobs in 1979 in the whole region, births contributed 221,000 new jobs over the period to the end of 1989. Many more new firms were born and died within the decade, so they never made it to the scorecard. Even more businesses that existed in 1979 did not make it through to the end of the decade - losing 148,000 jobs along the way.

The firms that survived the decade, having been there at the beginning and the end, contributed between them 74,000 new jobs, consisting of 164,000 new jobs from the "continuing" firms that increased their employment and 90,000 lost jobs from the continuing companies that decreased their employment. This heavy reliance on new ventures is even more pronounced among small firms, naturally. Births of firms with fewer than 100 employees contributed 175,000 new jobs on an employment base in small firms of 227,000 in 1979, while deaths took 91,000 back again. This is still an impressive net gain of 84,000 new jobs, compared to a net gain of 49,000 from continuing firms.

Among big firms, the likelihood of startups is much smaller, so their employment changes are sourced primarily in the continuing companies. This can be seen clearly in Chart 3.4, which shows the contributions to net employment gains by small (fewer than 100 employees), mid-sized and large (more than 500 employees) organizations. Small firms account for almost all the gains from births, but big firms play a much more important part in gains from the expansion of continuing companies. By the same token, small firms dominate the job losses from deaths and account for a relatively smaller part of the contractions of continuing companies.

**Chart 3.4<sup>a</sup>**  
**Small firms create jobs mainly through startups**

Employment gains and losses from the expansion and contraction of firms that existed in both 1979 and 1989, and employment gains and losses from firms that started during the decade and firms that existed in 1979 but disappeared before 1989.



In taking a closer look at the patterns of births and deaths, Table 3.3 indicates that there are stages in the development of a culture that favours self-employment. The rate of increase in the number of firms in Canada is significantly below the rate in Atlantic Canada, particularly Newfoundland and Prince Edward Island. New firms started during the decade represented 152% of the total number of firms in Newfoundland in 1979; the comparable figure for PEI is 118%, while Canada is at 107%. This high rate of new ventures naturally breeds a high death rate as well, because new firms are so vulnerable in their early years. Indeed, the death rate is significantly higher in the Atlantic than it is

<sup>a</sup>Source: *Employment Dynamics*

elsewhere in the country. However, the net gain from births and deaths is highest for the provinces with the most rapid startup rate. In other words, the torrid pace of new venture formation is leaving greater numbers of businesses in existence than in the rest of Canada.

*Table 3.3*  
*The Atlantic region has to work harder for results*

Increase in the number of firms and in employment, during 1980-89, as a result of newly identified firms† and decrease as a result of firms no longer identified†, in small firms (which employ fewer than 100 people), expressed as a percentage of the number of firms or employment in 1979.

	Percentage change resulting from:		
	births	deaths	net change
Number of firms			
Canada	106.6%	-57.0%	49.6%
Atlantic	118.1%	-57.1%	61.0%
Newfoundland	152.2%	-60.2%	91.9%
PEI	118.1%	-54.2%	63.9%
Nova Scotia	107.7%	-55.9%	51.8%
New Brunswick	108.9%	-57.2%	51.7%
Employment			
Canada	85.2%	-43.3%	41.9%
Atlantic	80.0%	-42.9%	37.1%
Newfoundland	80.9%	-45.8%	35.1%
PEI	69.0%	-39.4%	29.7%
Nova Scotia	79.8%	-41.5%	38.3%
New Brunswick	82.3%	-43.6%	38.6%

†Notes: "Births" are firms that are newly identified; "Deaths" are firms that are no longer identified

The picture is quite different when changes in employment are considered. In this area, the country as a whole is way ahead of the region, with a significantly greater net gain from births and deaths. This would seem to indicate that, even though small businesses are the prime source of new jobs now, a high level of venture formation does not necessarily translate into a high level of job creation in the early stages of a transition toward a more entrepreneurial economy.

As the transition builds a head of steam, entrepreneurs develop an infrastructure that supports and encourages them, helping them become more experienced and venturesome, and more able to translate that experience into more jobs for each new business. For the region there is the additional difficulty that a small local market inhibits growth. It is interesting that Newfoundland, with both the greatest impetus to turn to self-employment and the most difficult access to markets, is experiencing a spectacular burst of new venture creation, with a startup rate at 152% over the decade. Yet its net employment gain was only 35%, compared to Canada's 42% and higher levels in all other provinces except PEI.

### *What it takes to survive*

With startups playing such an important role in the growth of employment, it has become important to understand better what influences the rate at which new ventures are formed. To this end a model was created, which analyzed data on startups and failures. This data is more accurate than the births and deaths data referred to earlier in this chapter, because it has been cleared of most of the double-counting that inflates the births and deaths numbers. Moreover, it provides information on the age of companies at the time they cease operations, thereby enabling researchers to estimate failure rates year by year.

In terms of startups, Chart 3.5 shows the progression of startups in the Atlantic region from 1980 to 1989. These numbers were compared with the total number of businesses in existence at the start of each year, which permitted a precise calculation of the startup rate. This in turn made it possible to calculate an average rate for the decade, which has been used to establish an "expected" startup rate, which is the number of businesses that, bearing in mind the existing stock of businesses, would be started in any one year if the rate was equal to the average for the decade. On this basis, it can be seen from Chart 3.5 that the economy had a

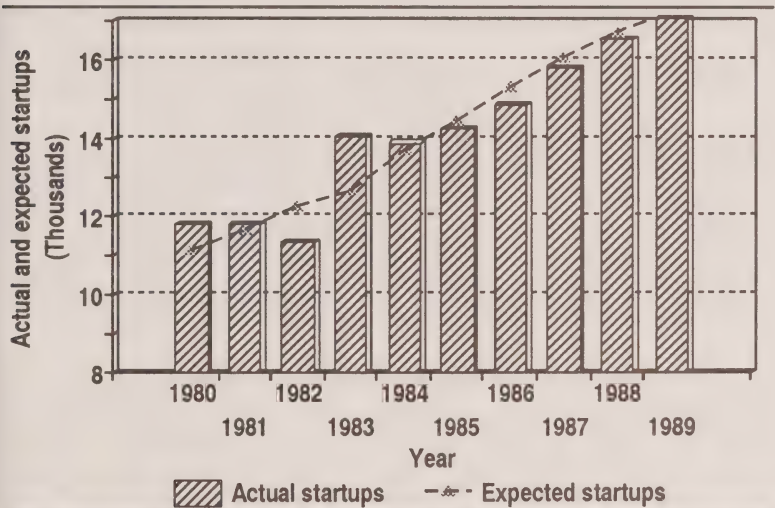
significant influence on startups: in 1982, the worst year of the recession of 1981-82, startups declined significantly, but the putative entrepreneurs played catch-up in 1983, when the startups were well above the expected rate. On average, therefore, startups are quite consistent and do not vary enormously.

**Chart 3.5<sup>9</sup>**  
***The impact of the economy on startups***

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The actual number of startups each year, compared to the number that would normally be expected if the startup rate were equal to the average startup rate for the whole period. Atlantic Canada, 1980-89.

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Notes: The expected startup rate is based on a model developed to examine the impact of different startup and failure rates. The model consists of estimated startups, failures and the growth in the total number of companies, based on the data contained in *Employment Dynamics*.

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<sup>9</sup> Source: This chart and the three charts and three tables that follow are all based on a special run of the data contained in *Employment Dynamics*; this run examines every firm by the year it is first identified and the year in which it is no longer identified. The figures for the final year of the period under study have been adjusted slightly to compensate for a statistical residual that distorts that year.

For the region as a whole, startups averaged slightly less than 20% per year of the number of businesses in existence at the beginning of each year. In the course of the decade, the lowest rate was 18.5% and the highest was 21.1%. However, this conceals some significant variations between the provinces, as Table 3.4 demonstrates.

*Table 3.4<sup>10</sup>*  
*Provincial highs and lows*

Startup rate and failure rate, averaged over the period 1980-88, for each province; and the resulting net gain in businesses. Average life expectancy<sup>§</sup> of a new venture in each province and a comparison of survival rates after three and five years.

Province	Startup rate	Death rate	Net gain	Average life expectancy	Firms still surviving after:	
					3 yrs.	5 yrs.
Newfoundland	24.7%	17.9%	6.8%	6.34	41.1%	30.8%
P.E.I.	18.9%	13.9%	5.0%	7.73	47.7%	38.5%
Nova Scotia	18.3%	14.0%	4.2%	7.30	46.2%	35.8%
New Brunswick	18.9%	14.7%	4.2%	7.05	44.8%	34.7%
Atlantic	19.9%	15.1%	4.8%	7.01	44.6%	34.4%

<sup>§</sup>Note: See Note to Chart 3.5. Life expectancies are calculated using the model referred to.

Newfoundland has by far the highest startup rate, as was established previously, while the other three provinces are all close to 18% or 19%. Despite its correspondingly higher failure rate, Newfoundland still comes out with the greatest net gain in the number of businesses it generates through new ventures - almost 7%, compared to the next highest at 5% in P.E.I. and about 4% in Nova Scotia and New Brunswick. The degree to which Newfoundland has to run harder to stand still is evident from the average life expectancy of new ventures, which will last for 6.3 years in Newfoundland, compared to 7.7 in P.E.I. The attrition rate is quite devastating with these high failure rates - after three years, only 44% of the firms that started in an average year will still be in

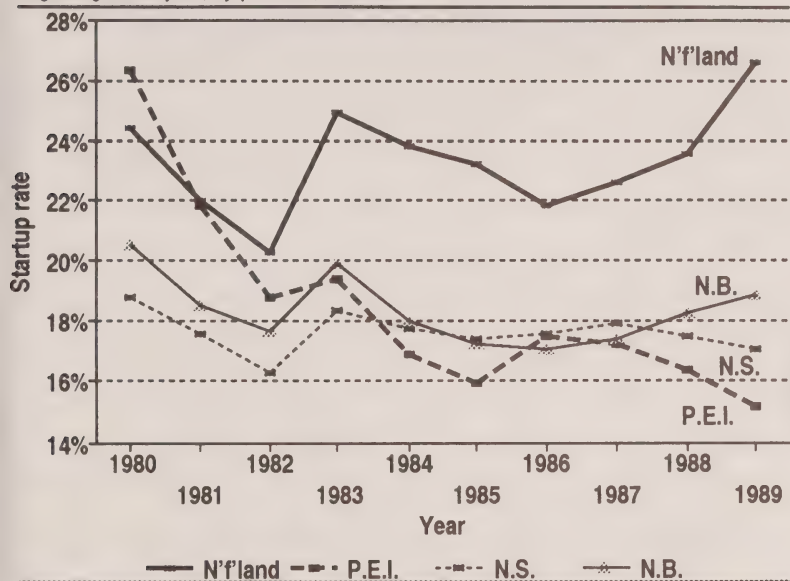
<sup>10</sup>Source: Special run of *Employment Dynamics*

business. After five years, it is only slightly more than a third.

When provincial trends are analyzed on an annual basis, it is clear that the regional numbers hide some significantly different trends between the provinces, as Chart 3.6 shows.

**Chart 3.6 <sup>11</sup>**  
**Provincial trends in startup rates**

Annual startup rate, expressed as a percentage of the total firms in existence at the beginning of the year, by province, 1980-89

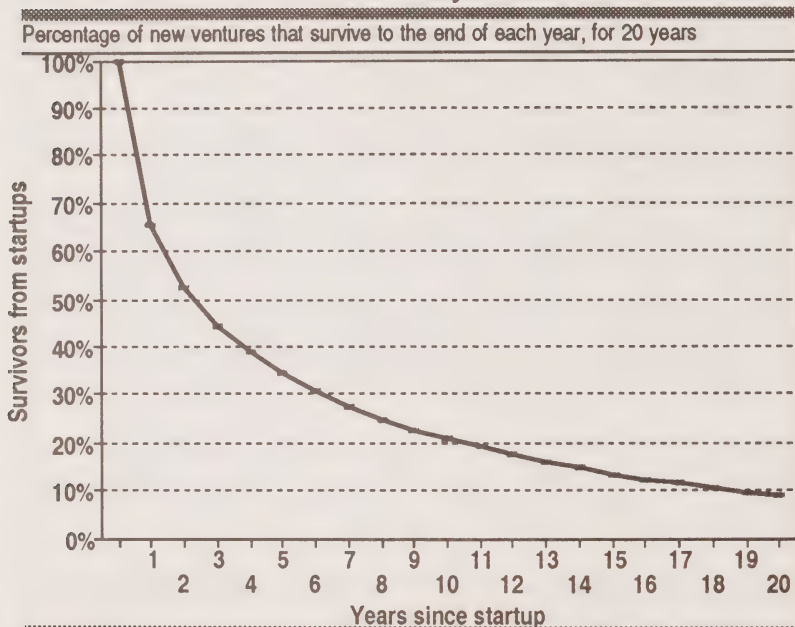


Newfoundland's startup rate is accelerating and New Brunswick's is recovering after a dip, but P.E.I.'s has declined precipitously since 1980, when it was the highest in the region, to become the lowest in 1989. And Nova Scotia's startup rate has been declining steadily, if less dramatically, since 1983. This is cause for some concern in P.E.I. and Nova Scotia because so few businesses survive the first few

<sup>11</sup>Source: Special run of *Employment Dynamics*

years that a high startup rate is needed to keep a steady supply of young firms in the economy. Chart 3.7 shows just how few businesses do survive. Half of every year's crop has gone by early in the third year; two-thirds have gone by the sixth year; only 20% remain after 11 years; and only 10% remain after 20 years. Perhaps it really is true that the first 20 years are the toughest!

Chart 3.7 <sup>12</sup>  
The first 20 years



Note: The survival rate is based on the average of the failure rates observed during 1980-89.

As was mentioned in last year's report, most of these failures are not bankruptcies - often the owner just closes the doors and pays off all the bills, because it doesn't make enough money; sometimes the owner just wishes to pursue

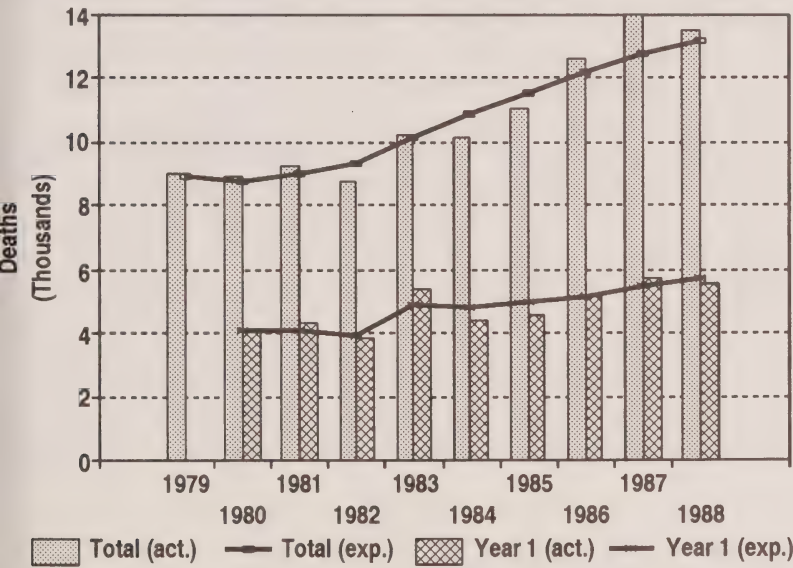
<sup>12</sup>Source: A special run of *Employment Dynamics*

other opportunities. Equally often, closing the doors is part of learning how to succeed as an entrepreneur.

In analyzing the failure rates, it is useful to compare actual failures with expected failures, based on the average failure rates over the decade. Chart 3.8 shows that, contrary to conventional wisdom, failures actually declined during the 1981-82 recession, falling significantly below expected failures.

Chart 3.8<sup>13</sup>  
**Actual and expected failures for all companies  
and for companies in their first year**

Actual failures for all companies and for companies in their first year, compared to the failures that might be expected on the basis of the average failure rates observed over the period 1979-88. Atlantic Canada.



Note: See note to Chart 3.5

<sup>13</sup>Source: Special run of *Employment Dynamics*

This is likely because many people hold off closing down their businesses because they hope to clear away debts or to get a better price if they wait for the recovery. It is true that bankruptcies rise, but they constitute only 10% of all failures. Like startups, however, the failure rate soars again in the year following the depth of the recession, rising well above the expected failure rate for that year. Overall, it is fair to say that failure rates are predictable, even if their timing depends on economic conditions.

Equally interesting, the chart also examines the failure rate for businesses in their first year - and it is apparent that economic conditions have very little effect on businesses that fail in their first year. Expected failures and actual failures are extremely close. In 1982, the actual failures of new-born enterprises were only a smidgen below the expected rate, and in most years, actual and expected failures were almost identical.

The net effect of all this activity is that the total number of firms in the region has been growing at about 4.7% a year - the net result of 20% startup rate and a 15% failure rate. As Table 3.5 shows, this rate accumulates rapidly; the total number of businesses in the region rose to 86,000 in 1989 from 56,000 in 1980. It would appear that this rate is slowing down now. It reached a peak of more than 8% in the recovery year of 1983, but is now languishing around 4%.

**Table 3.5<sup>14</sup>**  
**The dynamics of a high turnover**

The net gain each year from the new ventures started, less the businesses that ceased operating in the current year. Atlantic Canada, 1979-1989

Year	Total firms the year before	Starts this year	Deaths since last year	Net gain	
				#	%
1980	55,919	11,782	8,983	2,799	5.01%
1981	58,718	11,793	8,873	2,920	4.97%
1982	61,638	11,340	9,205	2,135	3.46%
1983	63,773	14,065	8,712	5,353	8.39%
1984	69,126	13,895	10,199	3,696	5.35%
1985	72,822	14,244	10,126	4,118	5.65%
1986	76,940	14,867	10,982	3,885	5.05%
1987	80,825	15,796	12,559	3,237	4.00%
1988	84,062	16,523	13,974	2,549	3.03%
1989	86,611	17,060	13,433	3,627	4.19%
Average	71,403	14,137	10,705	3,342	4.90%
	100%	19.8%	15.0%	4.7%	

Notes: The firms counted as dead did not operate in the year shown, but they did operate the previous year. Likewise, the starts did not operate last year, but did in the current year shown.

In seeking to establish the source of the startup activity, it is useful to examine startups and failures on an industry basis. This demonstrates that the activity is, in fact, heavily concentrated in a handful of industries. Mining and Business and Personal services are by far the most active sectors, with a startup rate of almost 26%, which is well ahead of the next highest, at 18% in Transportation, Communications & Utilities.

<sup>14</sup>Source: The special run of *Employment Dynamics*

As Table 3.6 shows, the net gains from startups and failures are significant in only the top three industries, which had net gains of 6.6%, 6.6% and 7.7%.

**Table 3.6 <sup>15</sup>**  
***The industries where the action is***

Total startups between 1980 and 1989, total failures between 1979 and 1988, by industry, and the corresponding startup and failure rates, based on the average number of companies operating during the period. Ranked by startup rate, with sub-industry detail for business and personal services. Atlantic Canada, 1979-89

Industry	Startups	Failures	Startup rate	Failure rate	Net gain
	#		%		
B&P services	45,448	33,752	25.8%	19.1%	6.6%
- Business services	2,213	1,863	19.7%	16.5%	3.1%
- Amusement/recreation	6,221	4,495	19.0%	13.7%	5.3%
- Personal services	22,937	16,762	39.1%	28.5%	10.5%
- Accommodation/food	8,059	6,684	18.4%	15.3%	3.1%
- Miscellaneous	6,018	3,948	20.2%	13.2%	6.9%
Mining	526	516	20.1%	19.7%	0.4%
T,C&U	7,844	4,492	18.1%	10.4%	7.7%
Construction	14,599	12,211	17.6%	14.7%	2.9%
Primary	12,332	8,367	17.2%	11.7%	5.5%
Retail	19,659	16,729	16.0%	13.6%	2.4%
F,I & RE	4,390	3,392	14.7%	11.3%	3.3%
Manufacturing	6,293	5,239	14.5%	12.1%	2.4%
Wholesale	5,876	4,834	14.0%	11.5%	2.5%
Community services	7,035	4,570	11.2%	7.3%	3.9%
Public administration	618	461	9.4%	7.0%	2.4%
<b>TOTAL</b>	<b>141,365</b>	<b>109,907</b>	<b>19.9%</b>	<b>15.5%</b>	<b>4.4%</b>

Notes: The abbreviations are for Business & Personal services (B&P services), Transportation, Communications & Utilities (T,C & U), Finance, Insurance and Real Estate (F, I & RE). Community services includes education and health and welfare.

<sup>15</sup>Source: Special run of *Employment Dynamics*

Primary industries came close with a net gain of 5.5% on a startup rate of 17%, but all the others gained between 2% and a little more than 3% on weak startup rates.

Further examination of the business and personal services industry reveals that the action there is coming almost entirely from one sub-industry - personal services, where the startup rate was an astonishing 39% a year and the net annual gain was more than 10% during the decade. It is significant that business services, which is the backbone of private-sector employment growth elsewhere in Canada, has not performed particularly well, although it has not done badly either; it had a net gain of 3%, although its startup rate was a healthy 20%.

The developed countries are, of course, letting a lot of their goods-producing industries slip away to the Third World, so it is to be expected that services will provide most of the new jobs in the future. However, it is important to develop expertise in services with export potential and high skills content, like business services.

### *The dynamics of business and employment*

Small businesses, as a group, can lay claim, as this chapter and chapter 2 have demonstrated, to being the most dynamic part of the economy, as they consistently provide the lion's share of new jobs. But individually, they often lead a precarious existence. The patterns of rapid growth, linked to equally rapid disappearance among startups have already been examined in this chapter; what is perhaps surprising is that the turnover and turbulence continue long after the startup phase is over. This section looks at the patterns of growth and decline among firms already established - and it finds that the turnover of businesses is staggering. Although each one is different, established small firms seem to follow four basic patterns of behaviour as they grow, decline or fail:

- A relatively small proportion are major success stories, including a handful of super performers who account for a wildly disproportionate share of the total employment gains.
- A lot more are as ambitious as the first category, with dreams just as grand, but they fail, for a myriad of reasons, some of which are their own fault, some of which are not. Many of these people learn from their experience and go on to succeed in subsequent business ventures.
- In between, there is a large number of small-business owners - perhaps a third of all business owners in Atlantic Canada - who earn a comfortable living, but have no desire for more than marginal growth;
- Finally, there are the small businesses that survive but never acquire any momentum, growing in good times and shrinking in bad times, flirting constantly with disaster, sometimes for many years.

It makes for a volatile mix, with businesses starting, failing, merging, selling out, growing and declining in astonishing volumes. Using a special run of data developed by Statistics Canada, it is possible to develop a unique perspective on this churning of firms and employment, starting with Table 3.7, which shows that small firms are, to say the least, a moving target. More than half the firms that existed in 1979 ceased operations by 1989, but they were replaced by exactly double their number of new ventures.

The easiest way to understand this data is to analyze the movement of firms between the various size categories (fewer than 5 employees, 5 to 19, etc) and then examine the impact this movement has had on employment. The degree of movement between size categories by firms that existed in both 1979 and 1989 and that grew (growers) or declined (sliders) during the decade is nothing short of astonishing. In firms with 20 to 99 employees, almost half of them grew into the next category or higher. The percentages for firms with fewer than 20 employees were not as big, but they represent a powerful push for growth because the absolute numbers are so much higher in these categories than in all others. The net effect was that the size category with 20 to 99 employees

grew by an amount almost equal to the total number of firms in the category in 1979 as a result of firms that left other categories during the decade, as Table 3.7 shows.

Table 3.7 <sup>16</sup>  
*The volatility of small businesses*

Turnover in the number of firms within each size category during 1980-89 - from new firms, exits, and growth or decline into other size categories - expressed as a percentage of the number of firms in 1979, Atlantic Canada

Type of change	Percentage change by size of firm (number of employees)						
	<5	5-19	20-49	50-99	100-499	500 +	All
	—%—						
Base, 1979	100	100	100	100	100	100	100
<i>Firms coming into the size category</i>							
Entrants	134	73	65	65	48	26	112
Inflow *	3	54	83	108	40	22	20
Total	137	127	149	173	88	48	132
<i>Firms leaving the size category</i>							
Exits	60	46	48	54	53	44	56
Growers *	12	21	45	61	20	0	16
Sliders *	0	13	14	11	5	4	3
Total	73	80	108	125	78	48	76
Net change in category	64	46	41	48	10	0	56

\* Notes: Growers are firms that existed in 1979 and have grown sufficiently to graduate to a size category above the one in which they were in 1979. Sliders are the same except that have declined to a lower category. Inflow is the other side of the coin: they count the sliders and growers by the size category into which they move over the period 1980-89.

Totals may not coincide with the sum of some columns due to rounding.

Most of this increase came from smaller firms growing bigger: a solid 12% of the smallest, most volatile firms grew to a size category one or more higher; for bigger size

<sup>16</sup> The statistics in this chapter are based on *Growing and Declining Businesses in Atlantic Canada, 1979 to 1989*, Statistics Canada, 1992. This is a special run of the data contained in *Employment Dynamics*, used extensively elsewhere in this report.

categories, the percentage that grew out of their categories was even more impressive, as Table 3.7 shows. The percentage of firms that declined out of their categories, by contrast, was much lower.

It is, nevertheless, important to note that the inflow into the two biggest size categories was much lower than the other categories - firms from other categories coming into the two biggest categories amounted to 40% of the 1979 base for firms with 100-499 employees and 22% for the biggest firms. This indicates that fewer growth firms are making the breakthrough to become threshold companies that can drive significant growth in an economy. The growth from inflow into these two categories for Canada as a whole is significantly higher than it is for the region.

Looking at this churning from the other end of the telescope - the source category of the moving firms - Table 3.7 shows that, in the three categories for firms employing 5 to 99 people in 1979, the firms that left the category because they grew or declined amounted to 34%, 59% and 72%, respectively, of the total firms in 1979 in that category. These numbers are boosted to a considerable degree by new ventures, which can start off in a category, and move up or down out of it quite quickly. It is remarkable that, for firms employing 50 to 99 people, the number of firms in the category were augmented by 173% of the total firms in 1979 thanks to entrants and inflow from other categories (mostly growers, as mentioned previously); at the same time, exits and firms that grew or declined out of this category represented the equivalent of 125% of the total firms in 1979. The net effect was a 48% increase in the number of businesses of this size in the region during the decade - the most impressive growth of any size category other than the smallest.

This is encouraging for the region, because this is the source of threshold firms. However, it is difficult to judge the importance of this growth as size categories are based on national employment, so the strong growth in the region may be the effect of a number of different trends: if these firms are locally based firms, their growth is a critical factor in

regional economic growth; if they are regional branches of national firms, it is more difficult to establish the long-term effects. Threshold firms are the most likely to come up with spectacular growth rates, but the impact on Atlantic Canada can go in either direction. Sometimes, the growth of national mid-sized firms spills over into other regions as they expand in small local units, with relatively little prospect of strong long-term employment growth; in other cases, expansion into the region represents significant employment growth in the most dynamic sector of growing firms. This is illustrated by the high rate of new entrants in the bigger size categories - 48% and 26% respectively of the two biggest categories. These high rates sometimes hold little benefit for the region, because the national firms do not always expand their operations right across the country immediately.

In the smallest firms, employing fewer than five people, all the power comes from startups, as is well known. Because of the huge numbers of firms in this category (three quarters of all firms), bigger firms declining into the category do not make much of an impression, but new ventures added 134% more firms during the decade. This is comfortably ahead of the 60% lost to failures.

It is surprising just how much turnover there was in the largest firms, which employ more than 500 people. These firms, numbering about 2,000, lost almost a half of their number to failures and downsizing; this was exactly matched by entrants (26% of the 1979 total) and smaller firms growing into the size category (22%). Overall, the employers in this category stood still during the decade.

### *Growth and decline in the job market*

**T**he impact of this turnover becomes even more dramatic when jobs are added to the equation. As Table 3.8 shows, the major contribution to job creation came from new ventures. More than half the firms that existed in 1979 went out of business during the decade, and new ventures added

exactly double that number to increase the stock of businesses by a net 54%. In the course of this activity, the firms that existed in 1979 lost almost 75,000 jobs, about one-tenth of 1979 employment and the equivalent of more than half the total new jobs created during the decade. New ventures saved the day by creating 220,000 jobs, or the equivalent of 151% of total new jobs.

**Table 3.8 <sup>17</sup>**  
***The Big Hitters and the Big Losers***

Distribution of firms by status (what happened to them during 1980-89) and the corresponding net gains and losses of employment, 1980-89, Atlantic Canada.

Status	Firms in each status		Net employment gains/losses	
	Number	As a % of 1979 firms	Number	As a % of total gains
		%	(000s)	%
Exits	31,722	55	-148.0	-101
Unchanged	18,673	32	33.1	23
Growers	5,249	9	69.5	48
Sliders	1,887	3	-29.4	-20
1979 firms	57,531	100	-74.8	-51
Entrants	63,001	110	220.8	151
Net change	31,279	54	146	100

*Notes: The net change in firms is entrants less exits. The net change in employment is overall new jobs created in Atlantic Canada. Growers are firms that existed in 1979 and have grown sufficiently to graduate to a size category above the one in which they were in 1979. Sliders are the same except that have declined to a lower category.*

Despite the dominance of new ventures, it is important to note that almost half of all net new jobs were provided by a mere 9% of the 1979 firms that grew into a larger size category during the decade than the one they started with. Since exits reflect the startup rate, the net growth from startups and exits contributed almost exactly the same share of new jobs as the growers - 48% and 50% respectively.

<sup>17</sup> Source: *Growing and Declining Businesses in Atlantic Canada, 1979-89*

The job losses from firms that shrank into smaller size categories were also not insignificant - although these firms were only 3% of the firms that existed in 1979, the jobs lost from their downsizing subtracted 20% of the total net gain in employment during 1980-89. By contrast, the 32% of firms that remained in the same size category throughout the decade developed at a more stately pace, accounting for 23% of the total increase in jobs.

Table 3.9 takes this a step further, breaking down the job-creation statistics by size of firm in 1978.

*Table 3.9<sup>18</sup>*  
***New jobs and firms in transition***

Share of total gains in employment in Atlantic Canada during 1980-89, by firm size and status

Status	Size of firm by number of employees						
	<5	5-19	20-49	50-99	100-499	500 +	Total
	—%—						
Exits	-17	-21	-14	-10	-20	-19	-101
Unchanged	2	3	2	1	7	9	23
Growers	12	12	7	5	11	0	48
Sliders	0	-4	-4	-3	-4	-5	-20
1979 firms	-3	-11	-9	-8	-6	-15	-51
Entrants	59	34	18	10	17	14	151
Net change	56	23	8	3	11	-1	100

*Notes: Growers are firms that existed in 1979 and have grown sufficiently to graduate to a size category above the one in which they were in 1979. Sliders are the same except that have declined to a lower category.*

One of the more surprising conclusions of this analysis is that the jobs lost from deaths are spread quite evenly across the size categories. Although the smaller firms have a much higher rate of deaths than the large firms, the job losses in the larger firms are much larger for each death. In terms of numbers of firms, there were 876 firms employing more than 500 people that ceased operations during 1980-89 and they

<sup>18</sup> Source: *Growing and Declining Businesses in Atlantic Canada, 1979-89*

lost almost 28,000 jobs. On the other hand, the failures of 23,600 firms with fewer than 5 employees during the period caused only 24,700 people to lose their jobs, or quite a bit less than the big firms. Many of these lost jobs, of course, are one-person businesses, the owners of which float repeatedly into and out of employment and independence.

This indicates the secret of small businesses in their role as the engine of job creation - when they fail, as they often do, the job losses are not too serious, but when they grow, the gains in employment can be very impressive. Only 6% of the 1979 firms with fewer than 5 employees grew into bigger size categories - or 4% of all firms in the region at the time - but they accounted for 12% of all new jobs created during the decade. The firms employing 5 to 19 people that grew into bigger size categories were only 1.4% of all the firms of all sizes existing in 1979, but they also accounted for 12% of total job creation.

Perhaps the most impressive conclusion from this analysis lies in the contribution to job creation made by the high-growth firms that jumped two or more size categories in 1978-85. Table 3.10 attests to the power of these high achievers.

Slightly more than one half of one percentage point of the firms operating in 1979 accounted for more than one tenth of all new jobs during 1980-89. These, of course, exclude startups during the period, demonstrating the extraordinary potential of small firms to grow fast once they are established.

**Table 3.10 <sup>19</sup>**  
**The Achievers**

Net employment gains by Atlantic Canadian firms that grew during 1980-89 into a size category two or more higher than their 1979 category.

Size of firm in 1979 (# employees)	Number of firms		Net employment gain (1980-89)	
	Number	As a % of 1979 total	Number	As a % of total gains
<5	157	0.28%	5,400	3.7%
5 - 19	114	0.20%	7,100	4.9%
20 - 49	56	0.10%	3,900	2.7%
50 - 99	2	0.00%	0	0.0%
Total	329	0.59%	16,400	11.2%

<sup>19</sup> Source: *Growing and Declining Businesses in Atlantic Canada, 1979-89*



## CHAPTER 4

# RISK CAPITAL FINANCING

**R**isk capital financing is a highly important element in the development of entrepreneurship in Atlantic Canada. As Chapter Two points out, 90% of the jobs created in the region over the period 1980-1988 were in small businesses (less than 100 employees), with 56% of the jobs coming from firms with less than 5 employees<sup>1</sup>. The formation and growth of these small organizations can be strongly affected by the availability and accessibility of risk capital. If the Atlantic region is to grow and create a significant number of jobs, therefore, it is essential that adequate and appropriate sources of capital be available. As this chapter points out, there are significant gaps in the structure of available capital sources in the region.

Building equity in small and medium sized businesses in Atlantic Canada is made more difficult by two fundamental characteristics of the region. The first is the net drain of equity through investment in capital markets in central Canada which exacerbates the already relatively low savings rates in Atlantic Canada. The Conference Board of Canada estimates the national savings rate at 9.72% for 1992. In contrast, Nova Scotia's savings rate is well behind at 4.11%, Newfoundland's is 6.86%, New Brunswick's is marginally lower than the national rate at 9.44%, and only Prince Edward Island has a higher savings rate than the country as a whole, at 10.61%. Quite clearly, levels of equity buildup are strongly related to available savings, and the savings rates in the region are low to begin with, even before the movement of capital which takes place to the major markets.

The second characteristic which makes equity buildup for small and medium businesses difficult is the regional preference for debt financing. Data in this chapter show that

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<sup>1</sup> Source: *Employment Dynamics*, Statistics Canada.

after use of personal and joint savings, bank loans form the backbone of financing in Atlantic Canada. The downside of debt financing is that in difficult economic times it tends to make profit performance more variable; debt payments remain constant in absolute terms, but can increase significantly proportional to revenues, as the latter decrease. Equity financing has the benefit of not putting pressure on cash flow in times of fluctuating revenues. It has been termed "patient capital".

### *Risk capital*

**R**isk capital is typically defined as: (1) distinct from the investment made by the owner/manager of a business, (2) a long term, unsecured investment subject to risk both in terms of operating returns and liquidity, and (3) normally involving an equity or quasi-equity participation in the business. Personal investment (usually from savings) made by individual owners, is excluded from the category of risk capital. There is certainly risk associated with it, but this is not capital that is available in the open market for the development of businesses. It is personal and therefore limited to the resources of the individual involved. Given the lower level of earnings in Atlantic Canada in relation to other parts of the country, the need for additional external sources is high. A second point to be noted is that by using this definition many public sector programs are excluded from our discussion. One could argue, however, that much of the government financing in Atlantic Canada consists of unsecured or subordinated loans, or loans that exceed 100% of the fixed assets used to secure them, and therefore should be thought of as risk capital. And as an example of financing that is clearly risk capital, ACOA's Action Loan Program, described later in the chapter, is specifically targeted towards supplying capital for projects which are defined as "high risk".

In general there are five main traditional sources of risk capital: (1) friends and relatives ("love money"), (2) informal investors ("angels"), (3) provincially sponsored venture capital companies (PSVCCs), (4) institutional investors, and (5) public securities markets where Initial Public Offerings (IPOs) may be made (The Vancouver Stock Exchange is a good example of a market which handles significant numbers of IPOs). Crown corporations and government agencies could be included as a sixth source. To a degree, as entrepreneurs develop their businesses they tend to explore these avenues of financing in turn, although not necessarily sequentially.

### *The shortage of risk capital in Atlantic Canada*

**T**he Atlantic Provinces Economic Council (APEC) recently released a report on regional development and business assistance<sup>2</sup>, which groups the causes of equity shortage in the region under three headings: supply impediments, demand impediments, and matching impediments.

**Supply impediments** focus on the fact that 70% of the venture capital firms in the country are centred in Toronto (40%), Montreal (15%) and Calgary (15%). Only 5% of the venture capital firms in the country (and that percentage refers to *numbers* of firms, not size of capitalization) are located in Atlantic Canada -- all in Halifax. Venture capital funds in Canada tend to have a regional bias<sup>3</sup>. Distance from the base of the fund increases the difficulty of consummating a deal. Looking at the situation from the venture capital fund manager's point of view, the further he or she is from the investment the more difficult it is to maintain close track of its progress. The remoter the area, the riskier investments

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<sup>2</sup> *Best Practices in Regional Development and Business Assistance: A Survey of Trends and Philosophies in North America and Western Europe*. Atlantic Provinces Economic Council, 1992.

<sup>3</sup> *Spatial Patterns of Canadian Venture Capital Investment*, Rod McNaughton and Milford Green, *Regional Studies*, 23, 1, February 1989, pages 9-18.

tend to become, partially as a function of less infrastructure, further heightening the venture fund manager's aversion.

**Demand impediments** relate to a generally unsophisticated small business sector with unproven management skills and limited ability to prepare business plans. The general lack of understanding of the role of outside capital is compounded by a bias toward debt financing over equity on the basis of an unwillingness to give up control to outsiders. Equity financing, whether as shares in a limited company, or ownership share in a partnership, is seen as lessening flexibility and freedom to manage as the principal owner desires. There is also a "cost" of equity related to the time and effort to search it out.

**Matching impediments** refer to the difference between the amount of funding required by the entrepreneur and the amount of financing a venture capital fund is willing to offer. Generally, the amount which the fund wishes to offer far exceeds the amount a small business requires. From the venture capitalist's point of view, the administrative cost (due diligence assessments, visits, analysis, legal fees, etc.) of investing \$100,000 or \$1,000,000 is the same. Most venture capital funds have a capital amount which they wish to invest, and a number of investments which they feel provide an optimal diversity to spread the risk. The smaller the investments, the higher the number of individual deals required to invest the allotted amount of capital, and the more the administrative overhead costs incurred; hence a lower return on investment. Critical mass remains a problem for Atlantic Canada.

The APEC report<sup>4</sup> makes some suggestions concerning building equity in the region. It argues that it is important to match supply and demand and to ensure that programs are available *equally* throughout Atlantic Canada. In order to build markets to the point where matching of supply and demand can occur, APEC suggests that ACOA may have to "recruit" venture capital funds to establish Atlantic offices.

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<sup>4</sup> *Best Practices in Regional Development*. Op.Cit.

Secondly, they suggest that such mechanisms as tax credit programs be made available to individuals wherever they live in the Atlantic region, and regardless of where they choose to invest their money in the Atlantic region.

### *The current state of risk capital financing*

**I**n spite of growth in the availability of risk capital in Canada since 1980, the level of activity in Atlantic Canada has been proportionally low. Transactions made in Atlantic Canada by members of the Association of Canadian Venture Capital Companies (which includes the Federal Business Development Bank) account for only 1% of the national total (although they represent almost 20% of the privately sourced risk capital in the Atlantic region). In absolute terms, a study done for ACOA of risk capital investments between 1980 and 1990 found a total of 437 individual investments totalling \$153 million<sup>5</sup>. The average therefore, of slightly better than \$15 million in 40 investments per year for the entire region, shows that the level of activity is very low indeed. As a percentage of Gross Domestic Product, Atlantic Canada's risk capital activity is less than half that of Quebec, and only slightly better than half of Ontario's. And the rate of investment is not increasing; the average total investment, 1987 to 1990 remained at about \$16 million.

Of the various sources of funding for small businesses in Atlantic Canada, public sector funds have been the largest and most significant source, through Crown Corporations and Agencies, and through provincially sponsored venture capital companies (PSVCCs). Governments have also attempted to encourage risk capital through a variety of Stock Savings Plans (SSPs). The goal of SSPs has been to increase the supply of equity capital and, at the same time, to create an awareness of stock ownership of local businesses among the

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<sup>5</sup> *Stimulating the Use of Private Sector Venture Capital in Atlantic Canada*. Moncton Consulting Services Ltd. Produced for ACOA, February 1991.

general public. The funding available through SSPs is usually second stage financing. The Atlantic region has not had a lot of SSP financings, largely because not enough ventures have matured to the stage where second stage financing can be done. As Table 4.1 shows, over the period of 1980 to 1990, Newfoundland had \$7.8 million in Stock Savings Plan investments; Nova Scotia has had \$10 million in SSPs; and Prince Edward Island and New Brunswick have had no capital raised through this type of vehicle.

The federal government has attempted to improve the access of small businesses to funds by allowing the investment of up to 50% of the assets of individuals' RRSPs or RRIFFs in Canadian controlled private corporations. This has not, to date, proved to have much effect. A second attempt has been to allow pension funds a three-for-one investment in foreign securities (for every dollar invested in venture capital, a pension fund may invest three dollars in foreign markets, thereby increasing the allowable percentage of foreign investments). There appears to have been an impact on risk capital in Canada overall as a result, but that impact has not transferred itself to Atlantic Canada, as evidenced by the lack of growth of risk capital funds in the region or the addition of any new ones.

The Atlantic provinces lag far behind other regions of the country in risk capital activity. The Moncton Consulting Services report<sup>6</sup> identified four factors/variables which retard the effective flow of venture capital in the region:

**(1) the inappropriateness of the sources of supply, given the nature of local demands.** Growth prospects for Atlantic small businesses fall short of institutional investors' expectations. The nature of local demands seems to be better matched to such sources as "love money", "angels" and PSVCCs.

**(2) the absence of a critical mass of informal investors.** Lower savings among Atlantic Canadians, due to a per capita income well below the national average, along with

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<sup>6</sup> Ibid.

unfamiliarity with this type of investment option, are contributing factors.

(3) **the difficulty experienced by government in attempting to set up programs corresponding to local conditions.** Emulations of programs in Central Canada simply do not work well in the east. For example, the PSVCCs in each of the four Atlantic provinces failed to build in any special provision for the lack of liquidity due to less developed capital markets, and this liquidity risk appears to have kept many potential investors away.

(4) **the lack of strong infrastructures and the general rudimentary state of regional markets for venture capital.** Venture Economics Canada Limited cites a model which can be used to describe the relationship between a region's infrastructure, the venture capital activity within the region and the demand or potential demand for venture capital<sup>7</sup>. Where the economic infrastructure contains a low level of resources, venture capital activity will be low, and there will be a low potential demand for the foreseeable future. Atlantic Canada is described as having a low to moderate infrastructure and hence a low level of venture capital activity. The argument put forward is that until the infrastructure is built to higher levels, there will also be low potential demand.

While much of the attention has been given to the supply of new funds for businesses, with complaints about the relatively small flows in the region, there is a concomitant problem in the inability of investors to recover their money. Investment in a publicly capitalized company, traded on a major exchange, implies a degree of liquidity. As the level of liquidity of an investment decreases, investors demand higher rates of return. It appears that (a) these commensurately higher rates of return have not been widely available, and (b) that investors have learned from the negative experience of not being able to recover their funds.

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<sup>7</sup> *Financing Early Stage Companies*, Venture Economics Canada Limited, 1991.

These two factors alone go a long way to explaining the shortage of risk capital funding in Atlantic Canada. It is often difficult for the investee to understand an investor's unwillingness to participate in what appears to be a successful, growing business with high potential. However, as growth occurs, there is a continuing need for further capital injections and unless the regional capital markets are able to both refinance and allow initial investors the option of exiting with their funds, institutions and individuals will remain reluctant to commit themselves.

There may be an additional reason for the lag in risk capital funding in the Atlantic provinces. Although there is no hard data to confirm it, there is the presence in the region of privately owned groups of companies which exert a wide degree of control and influence over business activity. They are active in the creation of new businesses which they finance with their own resources. Traditionally, these groups have maintained a high degree of secrecy around their operations, and have not been eager to become partners in venture capital funds, preferring to evaluate investment opportunities themselves on a case-by-case basis.

An effort to establish an Atlantic risk capital fund in the range of \$15-20 million in 1989 was unsuccessful, even though two large institutions showed interest in committing funds, contingent on other major partners being found. A highly experienced risk capital fund manager was brought to the region to assist in the search for partners for the fund. He canvassed the large privately-owned groups in the region but could generate no interest on their part.

Table 4.1 shows aggregate risk capital activity, by source and by province over an eleven year period from 1980 to 1991. More than \$165 million has been injected into the economy of the region. Approximately 75% has come from Crown Corporations and Agencies and PSVCCs, with direct public sector investments accounting for in excess of one-third of venture capital funding.

**Table 4.1 <sup>8</sup>**  
**Aggregate risk capital activity**

Investments committed, by source and province, Atlantic Canada, 1980-90

Year	Crown Corps. & Agencies	Provincially- sponsored VCCs	Institut- ional investors	IPOs under SSPs	Total
<b>NEWFOUNDLAND</b>					
1980	12	0	0	0	12
1981	84	0	125	0	209
1982	9	0	170	0	179
1983	20	0	0	0	20
1984	0	0	1,258	0	1,258
1985	1,500	0	300	0	1,800
1986	0	2,400	80	0	2,480
1987	4,900	2,210	669	0	7,779
1988	1,879	1,650	1,413	0	4,942
1989	1,268	1,566	401	5,666	8,901
1990	3,039	3,510	1,269	2,151	9,969
<b>Total</b>	<b>12,711</b>	<b>11,336</b>	<b>5,685</b>	<b>7,817</b>	<b>37,549</b>
<b>%</b>	<b>33.9%</b>	<b>30.2%</b>	<b>15.1%</b>	<b>20.8%</b>	<b>22.6%</b>
<b>NOVA SCOTIA</b>					
1980	0	0	150	0	150
1981	204	3,738	105	0	4,047
1982	0	5,084	0	0	5,084
1983	2,000	2,426	1,150	0	5,576
1984	63	3,267	1,053	0	4,383
1985	300	5,073	0	0	5,373
1986	0	2,268	400	0	2,668
1987	0	4,736	150	0	4,886
1988	934	3,700	500	5,200	10,334
1989	600	1,016	0	4,100	5,716
1990	2,046	100	0	650	2,796
<b>Total</b>	<b>6,147</b>	<b>31,408</b>	<b>3,508</b>	<b>9,950</b>	<b>51,013</b>
<b>%</b>	<b>12.0%</b>	<b>61.6%</b>	<b>6.9%</b>	<b>19.5%</b>	<b>30.7%</b>

Notes: \*Excluding Fortis

<sup>8</sup> Source: *Stimulating the Use of Private Sector Venture Capital in Atlantic Canada*. Op. Cit.

**Table 4.1 (cont'd)**  
**Aggregate risk capital activity**

Investments committed, by source and province, Atlantic Canada, 1980-90

Year	Crown Corps. & Agencies	Provincially- sponsored VCCs	Institut- ional investors	IPOs under SSPs	Total
<b>PRINCE EDWARD ISLAND</b>					
1980	0	0	0	0	0
1981	0	0	0	0	0
1982	0	0	480	0	480
1983	0	900	0	0	900
1984	0	1,640	2,094	0	3,734
1985	180	3,236	0	0	3,416
1986	343	127	0	0	470
1987	366	3,460	0	0	3,826
1988	2,420	2,687	0	0	5,107
1989	0	1,451	0	0	1,451
1990	750	740	0	0	1,490
<b>Total</b>	<b>4,059</b>	<b>14,241</b>	<b>2,574</b>	<b>0</b>	<b>20,874</b>
<b>%</b>	<b>19.4%</b>	<b>68.2%</b>	<b>12.3%</b>	<b>0.0%</b>	<b>12.6%</b>
<b>NEW BRUNSWICK</b>					
1980	575	0	84	0	659
1981	3,742	0	0	0	3,742
1982	2,603	0	0	0	2,603
1983	2,125	0	594	0	2,719
1984	1,885	0	400	0	2,285
1985	1,050	50	0	0	1,100
1986	4,950	1,047	1,000	0	6,997
1987	2,245	897	2,700	0	5,842
1988	3,902	1,303	0	0	5,205
1989	10,538	1,482	100	0	12,120
1990	2,852	2,956	7,452	0	13,260
<b>Total</b>	<b>36,467</b>	<b>7,736</b>	<b>12,330</b>	<b>0</b>	<b>56,533</b>
<b>%</b>	<b>64.5%</b>	<b>13.7%</b>	<b>21.8%</b>	<b>0.0%</b>	<b>34.1%</b>

**Table 4.1 (cont'd)**  
**Aggregate risk capital activity**

Investments committed, by source and province, Atlantic Canada, 1980-90

Year	Crown Corps. & Agencies	Provincially sponsored VCCs	Institut- ional investors	IPOs under SSPs	Total
<b>ATLANTIC CANADA</b>					
1980	587	0	234	0	821
1981	4,030	3,738	230	0	7,998
1982	2,612	5,084	650	0	8,346
1983	4,145	3,326	1,744	0	9,215
1984	1,948	4,907	4,805	0	11,660
1985	3,030	8,359	300	0	11,689
1986	5,293	5,842	1,480	0	12,615
1987	7,511	11,303	3,519	0	22,333
1988	9,135	9,340	1,913	5,200	25,588
1989	12,406	5,515	501	9,766	28,188
1990	8,687	7,306	8,721	2,801	27,515
<b>Total</b>	<b>59,384</b>	<b>64,721</b>	<b>24,097</b>	<b>17,767</b>	<b>165,969</b>
<b>%</b>	<b>35.8%</b>	<b>39.0%</b>	<b>14.5%</b>	<b>10.7%</b>	<b>100.0%</b>

The three federal arms which have largely financial mandates in Atlantic Canada are the Atlantic Canada Opportunities Agency (ACOA) which does not currently supply risk capital as it is traditionally defined (although the Action Loan Program, described below, is specifically targeted to risk situations), Enterprise Cape Breton Corporation (ECBC) which is included in the Crown Corporation statistics, and the Federal Business Development Bank (FBDB) which, while it operates one of the largest risk capital portfolios in Canada, is classified in these statistics as an institutional investor. Therefore, the public sector funding figures in Table 4.1 are comprised of ECBC and various provincial institutions:

**Newfoundland:** The Newfoundland and Labrador Development Corporation (NLDC), recently renamed Enterprise Newfoundland and Labrador (ENL), and

the Newfoundland Industrial Development Corporation (NIDC)

Nova Scotia: Business Capital Corporation (BCC)

Prince Edward Island: The Prince Edward Island Development Agency (PEIDA)

New Brunswick: Provincial Holdings Ltd. (PHL)

A review of direct venture capital investment activities conducted by Crown corporations and agencies in the Atlantic provinces highlights four major findings:<sup>9</sup>

**(1) The cost of risk capital funds varies greatly across the region**, from a low of 6% on preferred stock under the PEIDA's Small Business Enterprise Program, to 16.5% on funds supplied by ENL. Common share equity yields would be even lower, since public sector investors rarely share in their investees' capital appreciation.

**(2) Investment losses are heavy, especially when initial investments are followed by subsequent rounds of financing.** Full write-offs were incurred on 35% of the 191 individual investments documented in the review, totalling 48% of invested funds. New Brunswick has the highest incidence of write-offs (approximately 51% in frequency and 58% in dollar value), with Newfoundland second in dollar value and third in frequency, Nova Scotia third in dollar value and second in frequency, and Prince Edward Island incurring the lowest incidence of losses to 1990. Direct public investments only date from 1985 in PEI however, as compared to the early 1970s for the other provinces and, as the review comments, "if delinquency on the payment of preferred dividends is any indication of future investment losses, Prince Edward Island should brace itself as it may experience a much higher loss ratio in the future".<sup>10</sup>

**(3) Public sector involvement in risk capital financing has varied widely over the past decade.** Chart 4.1 illustrates

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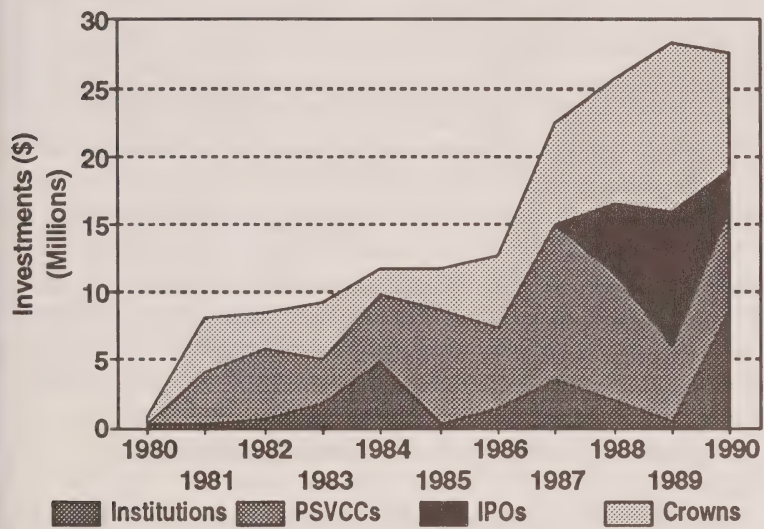
<sup>9</sup> *Stimulating the Use of Private Sector Venture Capital Financing in Atlantic Canada*. Op.Cit

<sup>10</sup> Ibid.

the variance in total venture capital invested annually by: Institutional investors, Provincially Sponsored Venture Capital Companies (PSVCCs), Initial Public Offerings under Stock Savings plans (IPOs under SSPs), and Crown Corporations and Agencies.

Chart 4.1  
*The rise in venture capital*

Total venture capital invested, by year and by source



As the report comments, this fluctuation can be explained by "the distortion created by the sheer magnitude of particular investments" (e.g. Bricklin), as well as the usual variances in the demand for funds and the amounts of discretionary income available to governments, particularly provincial governments, for investment.

(4) **Direct risk capital investments by Crown corporations and agencies vary widely by size, but considering inflation, have remained relatively constant, with the average size of the 65 public sector venture capital**

investments over \$10,000 made in the Atlantic region in the 1970s being \$358,585, while the average size of the 112 public sector venture capital investments made since 1980 being \$471,205. Since 1980, the average size of public sector investment made by each province in the region was Newfoundland - \$315,750; Nova Scotia - \$499,725; Prince Edward Island - \$177,950; and New Brunswick - \$686,020.

### *The informal market*

The informal market consists of two categories of investment: "love money" - funds supplied by friends or relatives of the entrepreneur - and funds supplied by "angels". The nature of "love money" investment is such that it is exceedingly difficult to track. It may come into a venture as startup money, or enter at a later stage. Since it tends not to be documented through formal institutions it is difficult for researchers to calculate with any accuracy. Probably the most informative data comes from the Atlantic Entrepreneurial Institute (AEI).<sup>11</sup> Table 4.2 shows sources of startup financing in the region, based on 1,320 questionnaire responses by small business owners. The figures also show a comparison between Atlantic Canada and the country as a whole.

Most interesting is the fact that Atlantic Canadian small businesses use lending institutions significantly more than is the case in other parts of the country. The small impact of risk capital, whether from formal venture capital organizations or "angels" (termed as "external investors") in the region, compared with Canada as a whole (2% vs. the national average of 7%), is confirmed. The important role of government agencies in financing small business in the region is demonstrated by the 11% of firms who used them as opposed to only 5% in the rest of the country. (A 1992

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<sup>11</sup> *Small Business in Atlantic Canada: Report of the 1990 Survey of the AEI Small Business Panel*, AEI, 1991.

study of women entrepreneurs in New Brunswick indicates similar patterns of startup financing.<sup>12)</sup>

*Table 4.2<sup>13</sup>*  
**Sources of startup financing**

Comparison of sources of startup financing in Canada and Atlantic Canada, 1990		
Source	Atlantic Canada	Canada
Personal funds	73%	82%
Lending institutions	56%	35%
Relatives/friends	20%	23%
External investors	2%	7%
Related companies	2%	7%
Government agencies	11%	5%
Other	3%	-

Clearly, in addition to relying heavily on personal funds to start up a business, Atlantic Canadian entrepreneurs shy away from most sources of risk capital and use bank financing, loans from relatives and friends ("love money"), and loans and grants from government agencies.

The AEI survey shows that **operating** businesses (beyond the startup stage) in the region showed a different profile with regard to meeting their financing needs. Table 4.3 shows that loans from financing institutions take on a much more prominent role once a business has begun and fewer personal funds are injected. Government grants and subsidies move into third place in terms of the importance of sources of operating capital.

<sup>12</sup> *The Myth & Reality of Women in Business - A Study of Female Entrepreneurship in New Brunswick*. Research Design Associates Inc., for The Office for Promotion of Women in Business, 1992.

<sup>13</sup> Ibid. AEI survey, 1990

**Table 4.3 <sup>14</sup>**  
**Financing sources for existing firms**

Forms of financing used in the last fiscal year by 1,297 firms in Atlantic Canada, 1990	
Sources	% responses
Lending institutions	47.7
Personal funds	26.1
Government grants and subsidies	7.3
Relatives' and friends' loans	4.4
Government loan guarantees	2.4
Relatives and friends (non-loans)	2.1
Internal funds, associated companies, sale of shares etc.	2.3
No financing used	7.7

The Department of Industry Science and Technology (ISTC) study *Small Business in Canada: Competing Through Growth* (1990) points out that small businesses tend to start off life with small investments and that more than 80% of their financing comes through chartered banks. The AEI data confirms the fact that as small businesses become established they turn more to financial institutions.

The Moncton Consulting Services study<sup>15</sup> (1991) of venture capital financing in Atlantic Canada found no significant use of "love money". However, as researchers have noted, informal investors are found in clusters, are linked by informal networks of friends and business associates and have a high propensity for joining together to form consortia. In the Atlantic Canada research it appears that these investors may have "institutionalized" themselves to take advantage of incentives offered by PSVCCs, and hence their investments would appear under that category.

There is a second possible explanation, however. It is the view that informal investors play a much less significant role

<sup>14</sup> Ibid. AEI 1990 survey

<sup>15</sup> *Stimulating the Use of Private Sector Venture Capital Financing in Atlantic Canada*. 1991, Op.Cit.

in Atlantic Canada than elsewhere. Data supporting this notion is found in the very small number of investors, either individual or institutional, who are registered under the COIN (Canada Opportunities Investment Network) program. Since all studies indicate that informal investors find network mechanisms such as COIN attractive, there may indeed not be a "critical mass" of investors in the Atlantic region.

Data on informal investors ("angels") indicate that they tend to be business people and professionals, average age about 50, with an annual income above \$100,000. Fifty-two percent of the informal investors surveyed by Venture Economics Canada<sup>16</sup> had more than \$1 million in family net worth. They are committed (50% have 15% or more of their family net worth tied up in risk capital investments). They're experienced and knowledgeable, with 75% of them having founded businesses, and they like to get involved in the business in which they invest (85% of those surveyed had some involvement). They tend to be long term investors, and are prepared to invest significant amounts -- the average investment is over \$200,000. They turn down two out of three investment opportunities which they decide to examine closely. Given this profile, it is perhaps not surprising that informal investors do not play a large part in risk capital financing in the Atlantic region.

### *Provincially sponsored investments*

The two major categories of provincially sponsored investments are PSVCCs and Initial Public Offerings (IPOs) under Stock Savings Plans (SSPs). The experience with PSVCCs across the country is that they are effective in promoting the flow of capital, **and business expertise**, to small and medium sized business. The programs were initially conceived to be market driven, but in some instances have fallen prey to political and bureaucratic agendas of

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<sup>16</sup> *Financing Early Stage Companies*, Op.Cit.

various kinds, particularly in the case of equity-loan PSVCCs where "public accountability" has sometimes introduced other criteria. However, even though PSVCCs are only a recent phenomenon (Nova Scotia 1981, Prince Edward Island 1983, New Brunswick 1985, Newfoundland 1986), **they represent the single most important source of public risk capital in Atlantic Canada in the last decade.**

As the Moncton Consulting Services report comments, "The increase in private venture capital funding has occurred largely in response to provincially sponsored programs (i.e. PSVCCs and SSPs), as these sources account for 80.4% of its total even though a large proportion of investments made by institutional investors were not admissible under PSVCC programs. In value, during the period surveyed, 30% of investments by institutional investors were nevertheless channelled through these programs. As a result, when those are added in, PSVCC investments alone represent 68.8% of all private sector investments, and, for every province other than New Brunswick, the single most important source of venture capital."<sup>17</sup> The study comments further, however, that in Atlantic Canada, "PSVCC programs are currently in somewhat of a turmoil", with the Nova Scotia program non-operative, the Equity Investors Incentive program (EIIP) in Prince Edward Island exposing its investors to "excessive risk", the Newfoundland program considering switching over to a tax credit/grant base, and New Brunswick contemplating similar action.

One of the problems that PSVCCs in Atlantic Canada have encountered is the difficulty of recycling their funds through successful exiting -- i.e. allowing initial investors to recover their funds either through dividend payments or through second stage financing. In retrospect, the PSVCCs have been underfunded and they have simply run out of money after the initial round of investments. Investors have some expectation of receiving a return on their investments

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<sup>17</sup> *Stimulating the Use of Private Sector Venture Capital Financing in Atlantic Canada.* Op.Cit.

and when they do so they are then able to reinvest these proceeds in subsequent financings. When they are unable to withdraw their money they are not able to participate in these second round financings. Thus they have been prevented from further participation in PSVCCs, and as a result there has been a low propensity for follow-on investments and a low degree of syndication of deals in the Atlantic region. Syndication is a necessary process in most risk capital financings of any substantial size. Capital is contributed by a number of members of a financing syndicate, all of whom are then able to spread the risk of the deal among themselves.

### *Institutional investors*

There are currently five locally managed funds, either professionally managed or associated with large institutions, and a variety of out-of-region funds which show interest in investments in Atlantic Canada from time to time. Even though institutional investments are seen, in Table 4.1, to represent 14.5% of total funding, they are comprised of only about 40 deals. The small number of deals may relate to the less than stellar results achieved by institutional investors in the region. At least 40% of the investments have either been lost in full or liquidated without a gain. This has been the case, since 1980, with six out of eight FBDB investments, and all six of those made by Atlantic Ventures Trust. If the FBDB figures are taken back to 1975, fifteen of seventeen investments were liquidated without gain, or lost.<sup>18</sup> The issue of not being able to exit from investments, mentioned above, has been a constant barrier to new funds entering the region.

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<sup>18</sup> *Stimulating the Use of Private Sector Venture Capital Financing in Atlantic Canada*, 1991. Op.Cit.

## *Community Development Organizations*

Aimed at increasing the level of self-reliance of communities in Atlantic Canada, community development organizations (CDOs) have acted as conduits for public sector funding for local initiatives. The Community Futures Program, set up since the early 1980s, is one example of CDOs funded by Employment and Immigration Canada (EIC). The Community Futures Program supports local Community Futures Committees and their Business Development Centres (BDCs). Within an overall strategic plan of the Committees, BDCs provide technical and/or financial assistance to new or existing businesses in areas of chronic unemployment. There are 8 in Newfoundland, 12 in Nova Scotia, 2 in Prince Edward Island, and 9 in New Brunswick. With a five-year operational budget of \$635,000, and a pool of \$1,550,000 for investments, BDCs are expected to be self-sufficient at the expiration of the five-year term, on the basis of the yield from their portfolios. Recent changes in Community Futures authorities allow for a longer term of support for Committees and their BDCs. This largely relieves the BDCs of the requirement to become self-sufficient at the expense of business services and should result in a less conservative approach to business development through their loan fund management. In terms of risk capital however, BDCs have made a minimal contribution since they have tended to be conservative with their funds, staying away from equity investments or subordinated loans. Being highly geographically focused, CDOs have had a negligible effect on the region's risk capital financing.

### *The ACOA Action Loan Program*

The objective of the Action Loan, initiated in May of 1991, is to provide entrepreneurs with equity-type financing for capital and non-capital investment. Its focus is to assist carefully selected startup and expansion projects

with an unsecured loan. The program can provide financing for high risk projects to cover eligible expenses, capital costs and/or working capital for high potential clients, where conventional financing from commercial sources is unavailable. To determine whether a project is "high risk", a number of criteria are considered:

- is the project a new commercial operation (startup or expansion) which involves a creative or innovative new direction for the applicant?
- does the project have a requirement for research and development?
- does the project have a requirement for pre-production expenses, soft costs and/or other working capital which cannot be financed through conventional means?
- does the project use technology which is state-of-the-art and highly competitive?
- does the project have potential for rapid growth and therefore high yields?
- is the product still in its developmental stage, yet to be fully proven on the market, and requiring a full-fledged marketing effort?
- does the project involve the development and design of a new product, service or process?
- does the product have a special market niche?

After one year of operation, the performance figures for the Action Loan Program are shown in Table 4.4.

**Table 4.4 <sup>19</sup>**  
**ACOA Action Loan Summary**

Disposition of applications for loans, as of June 18, 1992 (one year from inception)						
	Newfound- land	C.B.	Nova Scotia	P.E.I.	New Brunswick	Total
	#					
Applications	29	9	18	15	38	109
Approvals	14	6	5	7	15	47
Rejections/ withdrawals	8	3	11	7	19	48
In progress	7	0	2	1	4	14
	\$000s					
Approved	3,174	390	2,546	2,518	6,369	14,977

### *Assessing regional needs*

The risk capital market in Atlantic Canada remains underdeveloped and the proportion of venture capital employed in the region is low. Table 4.5, which the Moncton Consulting Services report describes as "a very rough and incomplete estimate of the activity conducted in the provinces of Quebec and Ontario during the 1980s"<sup>20</sup> shows venture capital activity per 1% of GDP for the Atlantic Region (\$23,076) as compared to Quebec (\$50,815) and Ontario (\$40,745). The regional imbalance is clear. The report goes further to comment that "by extrapolation, restoring balance would have required the Atlantic region to have maintained more than twice the level of venture capital activity experienced over the period (1980-1989), and perhaps as much as three times from private sector sources. On that premise, everything else being equal, in current

<sup>19</sup> Source: ACOA

<sup>20</sup> Source: *Stimulating the Use of Private Sector Venture Capital in Atlantic Canada*. Op. Cit.

dollars the Atlantic region can conceivably absorb annually about \$40-50 million worth of venture capital funding".<sup>21</sup>

*Table 4.5<sup>22</sup>*

***Regional comparison of venture capital activity***

Venture capital investments committed, by source, and a comparison between regions, including comparative Gross Domestic Product. Atlantic Canada, Quebec, Ontario

	Atlantic Canada	Quebec	Ontario
% share of aggregate GDP	6.0%	23.9%	41.2%
Documented venture capital activity (\$000s)			
Crown Corps. & agencies	50,697	-	-
Provincially sponsored VCCs	57,414	93,943	476,349
Institutional investors	15,376	341,990	419,300
IPOs under SSPs	14,966	778,644	783,034
<b>Total</b>	<b>138,453</b>	<b>1,214,487</b>	<b>1,678,683</b>
VC activity per 1% of GDP	23,076	50,815	40,745
Activity index:			
- all sources	45	100	80
- excluding Crown Corps. & agencies	29	100	80

The fact that the private sector has not played its role in the East to the degree it has elsewhere in the country has placed more pressure on public sources of financing. While arguments can be made that the presence of public funds keeps private investors from the market, research data from a variety of sources indicate that changes in public sector

<sup>21</sup> Ibid.

<sup>22</sup> Ibid. page 75

funding have a very strong effect on levels of business activity and all its concomitant effects on job creation, etc. Data from across the country as a whole indicate that risk capital activity in the private sector is declining regardless of whether there is public sector activity or not.<sup>23</sup> Institutional investors have withdrawn their support for early stage risk capital deals; half of the firms in Canada which were active in the early stage financing market between 1986 and 1989 have now ceased to operate in it. The tough economic climate is forcing investors back to more conservative positions. Public sector venture groups currently account for over 70% of activity in Canada.

It has been argued that Canadian venture capitalists are overly greedy and risk averse, but Venture Economics' study of the markets in Canada and the US dispels that notion.<sup>24</sup> Their analysis indicates that good startup opportunities are hard to find in Canada and that Canadian entrepreneurs are much more concerned than their US counterparts about retaining equity and are willing to forego growth in order to maintain control. Venture Economics' conclusion is that the problem is not one of capital, but rather one of a shortage of high quality, highly experienced Canadian managers, both entrepreneurs and risk capital managers. They comment on the vicious cycle which occurs. Canadian venture capitalists have difficulty finding high quality, highly experienced entrepreneurs worth backing in early stages; they therefore move away from the market and wait; when they do find opportunities they are cautious and provide small amounts of money; this in turn makes follow-on financing difficult to find; failure rates rise; rates of return drop; risk capital financiers withdraw further from the market; this makes syndication more difficult; entrepreneurs become more sceptical about finding risk capital and opt for slower growth financed out of earnings; other would-be entrants decide not

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<sup>23</sup> *Financing Early Stage Companies*. Op.Cit.

<sup>24</sup> Ibid.

to start up businesses; there are fewer success stories; there are fewer role models; and so on.

Government funding programs find themselves in an awkward Catch 22 situation. If they withdraw from risk capital markets they will cause strong negative effects on business startups. If, however, there is no follow-up financing facility in place, considerable amounts of money already invested in startups will be lost as companies fail at a later stage. Growth companies require a lot of financing beyond the startup. In the US, investors are doing fewer deals, but investing more money up front and ensuring that funds are available for subsequent growth needs. In Canada this is not the case. Governments may find it very difficult to step in a second, third, or fourth time to provide the very substantial amounts of capital required to fuel rapid growth. Having provided startup financing they now face the prospect of seeing widespread failure as a result of lack of follow-up financing. How can this scenario be changed so that everyone wins? Some suggestions include the possibility of governments "seeding" private risk investment funds, providing tax breaks and incentives to entrepreneurial managers in order to attract high quality, highly experienced people, to support labour sponsored development funds such as the Working Ventures fund sponsored by the Canadian Federation of Labour, and to review and modify PSVCCs. Clearly, the situation will not become a lot better unless the private sector begins to play a more significant role.

Even on the debt side of the market, the traditional financial institutions are re-evaluating their asset portfolios and, in many cases, writing them down significantly. As Tables 4.2 and 4.3 illustrate, banks are a favoured source of financing for both business startups and operating capital financing in Atlantic Canada. But the banks are "low risk" financiers, as Wynant and Hatch point out ("The account managers that we interviewed overwhelmingly view their role as providing small business with **low cost** and **low risk** financing. They do not view their bank as taking calculated risks in granting loans. The chances of recovering the bank's

funds, either through the firm's profits and cash flows if it succeeds or through the liquidation of business and personal security if it fails, must be virtually guaranteed."), and they are not going to step boldly into the gap between the demand for risk capital and the paucity of supply.<sup>25</sup>

All of these factors place increasing focus on the public sector as a source of risk capital for the Atlantic region. Given that direct public funding currently accounts for in excess of one third of the supply of risk capital in Atlantic Canada, the impact of governments' actions on the region will tend to be magnified during the 1990s.

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<sup>25</sup> *Banks and Small Business Borrowers*, Larry Wynant & James Hatch. The Western Business School, London, Ontario, 1990.

# CHAPTER 5

## WOMEN ENTREPRENEURS

### *The Self-employment Phenomenon*

**S**elf-employed women accounted for 4.1% of **all self-employed** persons in Canada in 1990, the percentage having doubled from 2.1% 15 years previously. In 1975 there were 3,381,000 women in the workforce in Canada, of whom only 5.6% (approximately 190,000) were self-employed. By 1990 the total number of women in the workforce had increased to 5,624,000, of whom 9.3% (approximately 530,000) were self-employed. Between 1985 and 1990 self-employed women have increased marginally as a percentage of total employed women in Canada (9.0% to 9.3%), but this ratio has declined in Atlantic Canada (9.2% to 7.8% in New Brunswick; 9.9% to 7.6% in Nova Scotia; and 8.6% to 5.7% in Newfoundland). There are no figures for Prince Edward Island, where the number of self-employed women is below the minimum number required for inclusion in reports by Statistics Canada. Comparative figures for men over the same five year period show a mixture of increases and decreases in the ratio of self-employed to the total of employed men in the Atlantic region: New Brunswick 14.1% to 15.5%; Nova Scotia 15.8% to 14.9%; Prince Edward Island 24.1% to 20.0%; and Newfoundland 7.9% to 11.5%.<sup>1</sup> The actual numbers of self-employed men and women in the region in 1990 were: 28,000 women (no figures for PEI) and 80,000 men.

Between 1975 and 1990, the ratio of self-employed women to **all self-employed** persons in Canada went from roughly 20% (2 in 10) to 30% (3 in 10). The ratio has increased over the same time period in New Brunswick (25%

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<sup>1</sup> *Labour Force Annual Averages, 1990*. Statistics Canada, February, 1991.

to 27%) and Nova Scotia (22% to 28%), but declined in Newfoundland (27% to 22%), with no data available for PEI.

The number of self-employed women grew by 172.8% between 1975 and 1990, an annual average growth rate of 11.5%, while the number of self-employed men over the same time frame grew by only 50.4%. Growth rates for self-employed women have consistently outpaced those for men in each five-year period over the last fifteen years, with the biggest spurt being the period of 1975-1980 when the growth rate was 67.5%, surpassing the growth rate for the decade 1980-1990 (57.9%). It is projected that there will be 680,000 self-employed women in Canada by the year 2000, with more than 1 in 3 self-employed being a woman.<sup>2</sup>

For reporting purposes, Statistics Canada includes all women reporting self-employment income, both on a full time and part time basis. **Interestingly, the growth in self-employed women appears to be taking place within the full-time category.** The number of self-employed women who worked for 53 plus weeks in total over the 1986-1989 period increased by 37.9% compared to a growth of 17.5% for all women self-employed. The number of self-employed men who worked 53 plus weeks in total over the same period increased 15.5%. The largest increase among self-employed Canadians between 1986 and 1989 was therefore in the female full-time category.<sup>3</sup>

### *Marital status*

**M**arital status is broken down into four categories: married or common law, single never married, widow or widower, separated or divorced. In 1989, 74.3% of the total self-employed were married/ common law. Of the

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<sup>2</sup> *Ibid.*

<sup>3</sup> Wendy Doyle, *The Growth of Self-Employed Women in Canada and Demographic Shifts*. Centre for Women in Business, Mount Saint Vincent University, Halifax, N.S., November, 1991.

female self-employed, 70.6% were married/ common law as compared with 75.9% of male self-employed. Single never married comprised 18.8% of the total self-employed population, with 20.3% of women self employed and 18.2% of men self-employed in this category. Separated or divorced individuals totalled 5.4% of the self-employed in Canada, and within women self-employed 6.1% had this status, compared with 5.1% of men self-employed. The classification of widow/ widower represented only 1.5% of the total self-employed population nationally, but 3.0% of women self-employed were widows while only 0.8% of men self-employed were widowers.<sup>4</sup>

## Age

In 1990, approximately one-third of self-employed women were in the 35-44 age bracket (32%) and more than half (56%) were between 25 and 44 years old. Ten percent of self-employed women were in the 15-24 age bracket, 20.5% were between the ages of 44 and 54, and 13% were 55 or over. Statistics Canada figures show that among employed women in the age range 25-64, immigrant women have a higher propensity to be self-employed than Canadian born women.<sup>5</sup>

It is interesting to note that in 1990, the absolute number of self-employed women and men in the 15-24 age category was essentially the same (52,000 women and 54,000 men). The older age categories, 25-34, 35-44, 45-45, 55-64 all show better than a two-to-one ratio of men to women. These ratios of numbers of women to men self-employed show a marked increase in women entering the ranks of the self-employed in relationship to men because fifteen years earlier, in 1975, while there were 39,000 self-employed women and 49,000

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<sup>4</sup> *Ibid.*

<sup>5</sup> *Labour Force Annual Averages. Op.Cit.*

self-employed men in the 15-24 age group, in the other age groups, the ratio was consistently four and five men for each woman.<sup>6</sup>

### *Education*

In 1986, the latest data available, over half (52.1%) of the self-employed women in Canada had achieved some or complete high school education. Those with less than high school education totalled only 12.8%, while 8.5% had some post secondary education, 14.3% had a post-secondary certificate or diploma, and 12.8% had a university degree. Education levels are higher in all educational categories for self-employed women than men except for university degrees, where 16.4% of self-employed men had graduated from university.<sup>7</sup>

### *Industry sectors*

Women entrepreneurs, while heavily concentrated in businesses in the services, financial services and real estate, and retail sectors, also have significant representation in other non-traditional sectors. The percentages of businesses owned by women, within each industry sector, in 1990 are shown in Table 5.1.

In the United States, women owned businesses are as likely to operate in construction, agriculture or wholesale trade as all businesses. As one report comments, "There is a higher percent of women-owned businesses in retail trade and business services than in all businesses. Since these are

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<sup>6</sup> *Women in Business: A Collective Profile*, Federal Business Development Bank, 1992.

<sup>7</sup> *Enterprising Canadians: The Self-Employed in Canada*. Statistics Canada, October, 1988.

industries where interpersonal skills are at a premium, it is not surprising that women are playing a major role."<sup>8</sup>

*Table 5.1<sup>9</sup>*  
***Business ownership by women***

Percentage of all businesses within each industry that are owned by women, Canada, 1990

Industry	% of businesses owned by women
Agriculture	20.3%
Other Primary industries (fishing, farming, forestry etc.)	9.6%
Manufacturing	17.8%
Construction	6.1%
Transportation, Communications and Utilities	10.2%
Retail and Wholesale trade	30.4%
Finance, Insurance and Real Estate	26.0%
Services	48.1%

*Women Entrepreneurs as Job Creators*

As pointed out earlier in this report, small businesses in Atlantic Canada represent 95% of firms and created 113% of net new jobs in the decade ending 1989. And women are playing an increasingly important role in this job creation. In 1964, 11% of Canadian businesses were owned by women, but by 1989 this figure had increased to 30%. The figures for new business startups by women are even more startling. Fifty percent of new business startups in Canada in 1989 were by women. Projections indicate that

<sup>8</sup> *Women Owned Businesses: The New Economic Force*. National Foundation for Women Business Owners (USA), 1992.

<sup>9</sup> *Labour Force Annual Averages, 1990*. Statistics Canada (unpublished data).

this figure will increase to 65% of the national total in the early 1990s.<sup>10</sup>

Self-employed women, however, tend to work alone more often than men. In 1990, 32.7% of women owned businesses had paid help, as compared to 50.9% of men owned businesses.<sup>11</sup> Three variables appear to affect whether women have paid help in their businesses: education level, marital status and age. Generally speaking, as education level increases, the percentage of self-employed women who have paid help increases. Marital status is also a major determinant of whether self-employed women have paid help: 90.5% of self-employed women who are single/ never married, are without paid help. And age appears to have an effect; 96.1% of women in the 16-24 year age category do not have any paid help.<sup>12</sup>

There is also a significant difference between the percentage of incorporated and unincorporated businesses with paid help. Only 18.9% of unincorporated women owned businesses have paid help, compared to 32.4% of unincorporated men owned businesses. However, when the business is incorporated, the percentages are essentially the same, with 78.9% of women owned businesses having paid help and 80.6% of men owned businesses having paid help. But women are less likely than men to have incorporated businesses (76.3% of their businesses are **not** incorporated, as compared to 61.5% for men).

In 1990 in the United States, women owned businesses employed almost 11 million people - 90% as many as the Fortune 500. This year the number of people employed by women owned businesses is expected to exceed the number employed by the Fortune 500 companies. This incredible

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<sup>10</sup>*The Myth & Reality of Women in Business - A Study of Female Entrepreneurship in New Brunswick*, Research Design Associates, for The Office for Promotion of Women in Business, April 1992.

<sup>11</sup> *Labour Force Annual Averages, 1990*. Op.Cit.

<sup>12</sup> Doyle, *Op.Cit.*

statistic illustrates two major change phenomena in the US: (1) the fact that the Fortune 500 companies, the largest in the country, lost 400,000 employees a year between 1980 and 1990, and (2) the phenomenal growth of women owned businesses. To place these figures in context, women owned businesses in the US employ about 10% of the total workforce, as do the Fortune 500 companies. A further interesting note is that the employment created by women owned business tends to be largely domestic, while the large corporations of the Fortune 500 have a significant number of their employees overseas. Women owned businesses in the US are not very different in size from all businesses in the country, largely concentrated in the category with fewer than 20 employees.<sup>13</sup>

Regional studies by Stevenson<sup>14</sup> and Gallant<sup>15</sup> (conducted separately in 1984 and 1990) indicate that women owned businesses are employing more people. In 1984, 44% of the women owned businesses surveyed did not have any full time employees, while six years later this figure had dropped to 29%. Over the period between 1984 and 1990, the percentage of women owned businesses with 5 or more full time employees increased from 16% to 28%, and in 1990 almost 70% of the firms surveyed also employed part time help. In 1984, part time help was only used by 40% of the women owned firms. The growth in employment is a reflection of the age, size and maturity of the women owned businesses in the Atlantic region.

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<sup>13</sup> *Women Owned Businesses (1992). Op.Cit.*

<sup>14</sup> *An Investigation of the Entrepreneurial Experience of Women: Implications for Small Business Policy in Canada.* Lois Stevenson. Survey for the Department of Regional Industrial Expansion, Wolfville, N.S., 1984.

<sup>15</sup> *A Profile and Analysis of Women Business Owner-Managers and Their Businesses in Atlantic Canada.* Leozee Gallant. Unpublished Doctoral Thesis, Northern Illinois University. 1990.

## *Demographic changes, 1984-90*

The studies by Stevenson and Gallant cited above highlighted a number of other interesting developments among women entrepreneurs in the region.<sup>16</sup> One of the most encouraging findings is that women entrepreneurs are succeeding. Women owned businesses are getting older - i.e. they are enduring, as Table 5.2 indicates.

In 1984, almost half of the women owned businesses in the region were in their infancy (under 5 years old) and 75% were under 10 years old. By 1990, a little more than a third of the businesses were under five years old and just over 60% were under 10 years old. Almost 40% were ten years old or older. The increase is clearly seen in the 11-20 year old grouping, the businesses which started in the late 1970s and early 1980s, are now maturing.

In the United States, over 40% of women owned firms have been in business for 12 years or more, and 20% have been in business 4 years or less. In other words, in the US, women business owners are no longer a new phenomenon and many have been in business long enough to establish track records. However overall, women owned businesses still tend to be younger than businesses in general. But the rate of startups for women owned businesses in the US continues to be higher than the overall startup rate.<sup>17</sup>

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<sup>16</sup> It should be noted that the Stevenson (1984) and Gallant (1990) studies did not replicate each other's data base. Stevenson's consisted of 447 women entrepreneurs, 35% of whom were located in New Brunswick, 55% were in Nova Scotia, and 10% were in Prince Edward Island. Gallant's sample of women entrepreneurs totalled 284, with 45% from New Brunswick, 26% from Newfoundland, 29% from Nova Scotia, and 10% from Prince Edward Island. Therefore, the changes noted in the two studies may not be statistically accurate, but the trends are very clear.

<sup>17</sup> *Women Owned Businesses, 1992. Op.Cit.*

Table 5.2 <sup>18</sup>**The staying power of women entrepreneurs**

Length of business ownership for women entrepreneurs in Atlantic Canada, 1984 and 1990.

Years in business	1984		1990	
	Number	%	Number	%
1 - 5	220	49.8	101	37.5
6 - 10	118	26.7	66	24.5
11 - 20	60	13.6	87	32.4
More than 20	44	10.0	15	5.6
Total	442	100.0	269	100.0

Along with growth in age and size (number of employees), women owned businesses in the region showed a corresponding growth in sales volumes (Table 5.3).

Table 5.3 <sup>19</sup>**Sales growth for women entrepreneurs**

Annual sales for women-owned businesses, by size. Atlantic Canada, 1984 and 1990.

Sales \$000s	1984		1990	
	Number	%	Number	%
Less than 100	210	52.0	155	55.4
100 - 500	169	41.8	88	31.4
More than 500	25	6.2	37	13.2
Total	404	100	280	100

In 1990, 13% of the businesses surveyed had sales over half a million dollars, as opposed to only 6% of women owned firms six years earlier.

Another finding, underlined in importance by the job creation ability of new ventures, is that women entrepreneurs tend to start their own businesses (75%), rather than

<sup>18</sup> Source: Stevenson (1984) and Gallant (1990)<sup>19</sup> Source: Stevenson (1984) and Gallant (1990)

inheriting them or taking over a family business (5%), or buying existing businesses (20%). This high propensity for creating new businesses among women entrepreneurs emphasizes the important part they play in creating new jobs in the region. (An interesting sidelight to this phenomenon is that when anglophone and francophone women entrepreneurs were compared in a New Brunswick (1992) survey<sup>20</sup>, the latter were shown to purchase existing businesses 35% of the time versus 25% for anglophone women.) A further corollary to this difference between anglophone and francophone women entrepreneurs is that more of the former (31%) took courses prior to setting up their business than the latter group (18%) - perhaps explaining why francophone women often prefer to buy existing businesses which have gone through the initial learning pains of startup.

The profile of women entrepreneurs in the region shows that a significant percentage had either self-employed fathers or mothers (40-50%). Of the two parents, fathers are three to five times more likely to be self-employed than mothers, but an interesting comparative statistic between the two studies in 1984 and 1990 is that self-employed mothers increased from 6% to 14%. These numbers raise a number of highly interesting issues concerning what makes an entrepreneur, and the importance of a "genetics" of entrepreneurship. The heavy preponderance of new entrepreneurs whose parents were self-employed makes it very clear that learning experiences with role models have a highly significant effect on behaviour.

A final interesting trend is a changing industry focus. Statistics Canada has released data concerning the percentage of self-employed women in each industry sector. Table 5.4 shows the changes over the period 1975 to 1990.

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<sup>20</sup> *The Myth & Reality of Women in Business*, Op.Cit.

**Table 5.4<sup>21</sup>**  
***The evolution of self-employment for women***

Percentage of women who were self-employed, by industry, 1975 and 1990

Industry	Self-employed women as a % of total in:	
	1975	1990
Agriculture	6.8	10.0
Other Primary	-	0.8
Manufacturing	2.1	2.7
Construction	-	2.7
Transportation, Communications and Utilities	-	1.6
Wholesale and retail trade	22.6	20.8
Finance, Insurance and Real estate	2.1	3.9
Services	62.9	58.0

### *Financing trends*

Financing trends for women entrepreneurs show increasing reliance on personal savings and family, but a decreased usage of commercial bank loans. Risk capital sources remain highly underutilized, as pointed out in Chapter 4. But utilization of government financial aid programs shows an increase over the period. It is interesting to speculate on the trends illustrated in Table 5.5. During the period covered by the two surveys, the stock market crashed and interest rates soared. Banks responded by placing even greater emphasis on lending against hard assets, making business startups by people without tangible assets more difficult. With the rising cost and difficulty of borrowing, one would expect that new entrepreneurs who were able to forecast cash flows in their businesses with any degree of accuracy would tend to shy

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<sup>21</sup> Source: *Labour Force Annual Averages, 1990*. Statistics Canada. Unpublished data.

away from heavy initial debt loads. This indeed is what happened. Table 5.5 (which is based on figures from the Stevenson (1984) and Gallant (1990) regional studies) shows a decrease in the reliance on commercial bank loans, from 55.7% to 39.4% of women seeking initial financing. The increased emphasis on personal savings and family funds makes sense in that these sources appear to have a lower opportunity cost and have the added feature of becoming more like equity than debt as repayment is extended beyond the terms banks find acceptable. (These trends are substantiated by the 1992 New Brunswick study<sup>22</sup> which shows that well over half of the businesses surveyed used personal, joint and family savings as their initial capital base. Interestingly, based on the results of this survey, one can speculate that the category of "joint personal savings" which Gallant's study did not include would, in fact, have shown an increase over the 1984 numbers.)

*Table 5.5<sup>23</sup>*

*The evolution of financing for women entrepreneurs*

Percentage of women who used each category of financing. Atlantic Canada, 1984 and 1990

Source of financing	1984	1990
	% response	% response
Personal savings	47.5	58.5
Joint personal savings	29.0	n/a
Family	18.6	25.7
Friends	2.2	4.6
Government	12.6	17.6
Banks	55.7	39.4
Private venture capital	0.5	3.5
Other	8.7	7.4

<sup>22</sup> *The Myth and Reality of Women in Business. Op. Cit.*

<sup>23</sup> Source: Stevenson (1984) and Gallant (1990)

The increasing use of government financing programs illustrated in Table 5.5 tends to indicate that the programs created over the period 1984-1990 (a) achieved higher rates of recognition and understanding, and (b) were seen to be more appropriate to the needs of starting entrepreneurs. This is encouraging for those agencies who have been active in designing programs supporting entrepreneurial activity. Both awareness of programs and their perceived utility are important dimensions in the thrust to develop and support entrepreneurship in Atlantic Canada.

Wynant and Hatch<sup>24</sup> have investigated the popular myth that women owned businesses face greater hurdles than men owned businesses in obtaining financing. They gathered data from 1,539 bank credit files, drawn from 60 bank branches, representing the six major chartered banks - the Bank of Montreal, the Bank of Nova Scotia, the Canadian Imperial Bank of Commerce, the National Bank of Canada, the Royal Bank of Canada, and the Toronto-Dominion Bank - across Canada. The data collection was designed to be representative of all regions of the country and to have a reasonable urban/remote split. Collected during the summer of 1989, the data involved loan decisions made from May 1987 onward. Each credit file yielded information on the applying firm, its management, the loan package, the nature of collateral security and an assessment of the points of tension in the banking relationship. **Ten percent of the credit files were from women owned businesses.**

Wynant and Hatch found no difference in the relative frequency of women borrowers across various geographic regions of the country. They found that a higher proportion of male owned businesses were incorporated, while partnerships and proprietorships were more common among women owned businesses. No difference was found in the frequency of franchising between gender groups.

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<sup>24</sup> *Banks and Small Business Borrowers*. Larry Wynant & James Hatch. The Western Business School, London, Ontario, 1990.

Overall, women owned businesses tend to be smaller in terms of sales, assets, or number of employees than businesses owned by men. This is probably explained by the fact that male owned enterprises are significantly older than those owned and run by women. In their survey, Wynant and Hatch found 15% of women owned businesses were startups, while only 8% of male owned firms were in that category. These figures corroborate the general growth figures in women owned businesses both in Canada as a whole and in the Atlantic region.

A significant difference was found between the managerial experience of men and women entrepreneurs. On the one hand, 76% of male key managers have four years or more of related managerial experience, while only 58% of their female counterparts have that amount. And the same thing is true of non-managerial work experience, with 80% of men having three or more years and only 67% of women having that level of experience.

There may be many explanations of this phenomenon. Certainly the high number of young women (under 24) starting businesses would contribute to this disparity in experience. And in terms of the particular disparity in *managerial* experience, some of the work done by Stevenson<sup>25</sup> on the motivation to start one's own business introduces an interesting perspective. She points out that dissatisfaction with their work lives is a major motivation for women who start their own businesses. Lack of recognition on the job, and feelings of not being adequately valued for what they did contributed to their decision to stop working for someone else and to strike out on their own. Thus they were "pushed" somehow to the decision to start their own businesses (over 80% of the women surveyed showed no previous desire to own their own businesses). However, more than 50% of the men surveyed had had such a desire for some time. Men appear to recognize, at an earlier age than

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<sup>25</sup> Lois Stevenson, "Women Entrepreneurs - Problems and Perceptions", *The Entrepreneurship Development Review*, 3, (Summer 1987): 23-25.

women, the desire to work for themselves, and as a result strive to gain as much relevant experience as possible.

In terms of financial characteristics of women and men owned businesses, Wynant and Hatch found no significant differences. Measures included such basic ratios as debt to equity, debt to assets and other financial leverage calculations. **And there was no significant difference between women owned and men owned businesses in the borrower ratings assigned by lending officers.** However, given the younger age of women entrepreneurs, the fact that their businesses tend to be smaller and newer, that they have less related managerial experience and non-managerial experience, and tend to be concentrated in the retail and service industries which have higher than average failure rates as small businesses, women borrowers are seen to be higher risk borrowers by the banks than their male counterparts.

Loan characteristics differed between women and men owned businesses, with only 23% of women owned businesses taking loans for the financing of accounts receivable, as opposed to 32% of their male counterparts. Women owned businesses tend to take more loans to finance leasehold improvements and inventory, and less to acquire machines and equipment or to expand their product line. This is consistent with the fact that women owned businesses tend to be disproportionately represented in retail and service industries where leasehold improvements and inventory are more common needs.

In terms of loan inquiries and new loans, women were found to be more likely to ask for general information about a loan, as opposed to making a specific request for funding, and were more likely to ask for a new loan than men (28% vs. 22%). Forty-eight percent of women inquiries about a loan were for starting a new business, while only 37% of male inquiries were for this purpose. The newness of the ventures and the loan applications contributes to the problems women have with acquiring financing because the loan officers are less likely to know as much about the client or

the business. Much of lending is based on relationships, and comfort and confidence play a major part in the lending decision. Regarding the difficulty women encounter with raising capital for their businesses, a US study comments, "Many women who wish to grow their businesses are hampered by lack of capital. Women owned businesses continue to be affected by low credibility in the financial markets and restricted access to expansion capital."<sup>26</sup>

Wynant and Hatch report no significant difference in the frequency with which bank clients, male or female, provide such documentation as financial plans, pro forma statements or cash flow projections, countering the common belief that women provide more detailed information to the bank than men. They report that **from the account manager's perspective**, women entrepreneurs more frequently exhibited three types of problems: recurring overdrafts, poor financial skills and poor operational skills. This appears to be a reflection of the comparative lack of managerial and non-managerial experience among women business owners commented on above. Women are younger and more inexperienced than men when they start their businesses so it is not surprising that their skills, at that point in time, are less developed.

The frequencies with which women and men business borrowers are asked to provide spousal guarantees are "virtually identical". And there is "no significant difference in the frequency of turndowns for men compared to women".<sup>27</sup> Wynant and Hatch found that there was no significant difference in the rejection rate for either operating loans or term loans for women and men borrowers. They analyzed the reasons for loan rejections and found that the differences for women and men centred on three issues, "too few management skills", "insufficient equity", and "lack of a track record", all of which were

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<sup>26</sup> *Women Owned Businesses, 1992. Op.Cit.*

<sup>27</sup> *Wynant & Hatch, Op.Cit.*

mentioned more frequently for women than men. Twenty-two causes for rejection were identified and analyzed in the research, but only the three noted above proved to exhibit any difference between gender groups, leading to the conclusion that there are far more similarities than differences between women and men owned businesses.

Other similarities between women and men owned business loans identified by the research include: loan costs, the amount of administration required by the bank to service the loan, type or amount of collateral support, the frequency of personal guarantees, debenture security or general security agreements, repayment provisions, or the frequency of spousal guarantees, as mentioned above.

### *The human issues of entrepreneurship*

The Atlantic Entrepreneurial Institute conducted a survey of more than 1,700 small business owners in the summer of 1991.<sup>28</sup> The average age of businesses in the AEI panel is 10.4 years; they have an average of 13.2 full-time employees, 3.7 part-time employees, and 5.8 seasonal employees; 80% have revenues under \$2,000,000, and 47% have revenues under \$500,000.

In an effort to gain a greater understanding of the entrepreneurial community in Atlantic Canada, AEI investigated some of the characteristics and traits of small business owners in the region, obtaining 1162 responses.<sup>29</sup> Respondents to the survey were asked, among other things, (a) the most important characteristics for developing a successful business venture, and (b) the extent to which they felt they possessed these characteristics. Table 5.6 shows how respondents ranked the characteristics they felt were most

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<sup>28</sup> *Small Business in Atlantic Canada: Report of the 1990 Survey of the AEI Small Business Panel.* Atlantic Entrepreneurial Institute, 1991.

<sup>29</sup> *Small Business in Atlantic Canada: A Human Resources Perspective.* Atlantic Entrepreneurial Institute, 1992.

important for an individual developing a business. Reading down the list and looking for differences between women and men, 31.4% of women rated determination as the most important characteristic for a successful entrepreneur, while only 23.5% of the men saw it as the most important characteristic. On the other hand, 13.6 % of men listed "willingness to take risk" as the second most important characteristic, while only 9.3% of women did so.

**Table 5.6 <sup>30</sup>**  
***What entrepreneurs think it takes to succeed***

The percentage of entrepreneurs who chose the qualities listed as the most important, the second most important and the third most important to succeed

Characteristic	Most important		2nd most important		3rd most important	
	Male	Female	Male	Female	Male	Female
Determination	23.6	31.4	21.5	20.3	9.5	5.9
Willingness to take risk	13.6	9.3	7.1	4.2	9.1	9.3
Need to achieve	6.9	6.9	5.9	8.5	7.9	12.7
Self-confidence	8.8	6.8	7.6	8.5	10.6	11.9
Diligence	3.9	5.9	5.2	7.6	4.3	5.1
Creativity	2.2	5.9	4.1	5.9	4.4	7.6
Initiative	5.8	5.1	7.9	5.1	6.6	6.8
Resourcefulness	3.9	5.1	6.4	11.9	9.9	11.9
Independence	4.9	3.4	7.0	5.9	5.6	5.1
Optimism	4.7	3.4	4.7	4.2	7.9	5.9
Understanding/respect for others	1.9	3.4	1.9	1.7	1.3	0.8
Perseverance/tenacity	0.6	0.8	0.6	-	0.1	-
Hard working	2.3	-	1.8	0.8	1.0	2.5
Honesty/integrity	2.0	-	0.4	-	1.2	-
Others	9.7	8.5	10.6	11.0	10.9	7.6

Building on the list of characteristics which respondents had identified as being most important for developing a

<sup>30</sup> Source: Atlantic Entrepreneurial Institute

successful business venture, the AEI survey then asked the respondents the degree to which they felt they personally possessed each of these characteristics. The results, differentiated between females and males, are shown in Table 5.7.

*Table 5.7<sup>31</sup>*

***How entrepreneurs see their own formulae for success***

Percentage of entrepreneurs who consider they have the personal characteristics indicated

Characteristics	To a great extent		To a little extent		Do not possess		Don't know	
	Male	Female	Male	Female	Male	Female	Male	Female
Determination	88.6	94.1	9.0	5.1	0.3	-	-	-
Initiative	81.6	91.5	15.0	5.9	0.3	1.7	-	-
Independence	84.6	88.1	12.3	11.0	0.5	-	0.1	0.8
Diligence	73.0	84.8	21.8	13.6	-	-	0.9	0.8
Need to achieve	77.6	78.8	19.6	19.5	0.5	-	0.3	0.8
Self-confidence	80.8	75.4	17.2	23.7	0.2	0.8	-	-
Resourcefulness	73.3	71.2	23.8	27.9	0.2	-	0.2	-
Optimism	70.4	70.3	25.6	27.9	0.4	-	0.5	0.8
Creativity	55.4	66.1	41.4	29.7	0.7	2.5	0.1	1.7
Risk-taking	62.5	52.5	34.7	45.8	0.9	1.7	0.3	-

Women entrepreneurs see themselves as more determined, having more initiative, being more independent, more diligent and more creative than male entrepreneurs see themselves. Men, on the other hand, see themselves as more self-confident and risk-taking.

The AEI survey went deeper into the issue of personal characteristics of entrepreneurs by asking them whether they saw their personal characteristics as having changed during their years of involvement with their small business. The responses are summarized in Table 5.8. Roughly 88% of the women and 86% of the men felt that during their lives as

<sup>31</sup> Source: Atlantic Entrepreneurial Institute

entrepreneurs they had experienced some change in personal characteristics.

Table 5.8 <sup>32</sup>

*The changes that entrepreneurs see in themselves*

Evaluation by entrepreneurs of how their personal characteristics have changed in the course of their involvement in their own small business

	Male		Female		Unknown	Total
	Count	%	Count	%	Count	Count
Changed a little	573	56.3	46	39.0	18	637
Changed significantly	299	29.4	58	49.2	5	362
Did not change	127	12.5	14	11.9	4	145
No response	18	1.8	0	0.0	0	18
Total	1,017	100.0	118	100.0	27	1,162

And finally, in response to the question as to whether these changes in personal characteristics were attributed to their actual business experience as entrepreneurs, 83% of both the women and men surveyed agreed that their business experience had some real effect on the change in their personal characteristics, while 17% of the women and 16% of the men felt that these changes were **totally as a result of their involvement with business**. Table 5.9 summarizes these responses.

<sup>32</sup> Source: The Atlantic Entrepreneurial Institute

Table 5.9<sup>33</sup>**The change agent is business circumstances**

Evaluation by entrepreneurs of the cause of the changes in their personal characteristics

	Male		Female		Un-known	Total
	Count	%	Count	%	Count	Count
Not related to involvement with business	21	2.1	3	2.5	0	24
Partially related to involvement with business	687	67.6	78	66.1	16	781
Totally related to involvement with business	161	15.8	20	16.9	7	188
No response	21	2.1	3	2.5	0	24
No change in personal characteristics	127	12.5	14	11.9	4	145
Total	1,017	100.0	118	100.0	27	1,162

As these AEI survey results indicate, running a small business is certainly not like having just another job. People are changed by the experience of owning their own businesses. Stevenson<sup>34</sup> comments on this in her research with entrepreneurs. Her in-depth interviews with 34 entrepreneurs make it very clear that "business changes you", especially for women. The dominant change that Stevenson found among women entrepreneurs was the positive change in their self-confidence. Male entrepreneurs, on the other hand did not see this change in themselves. Table 5.7 shows that 80.6% of men see themselves as self-confident, while only 75.4% of women have the same perception of themselves, reinforcing Stevenson's data to a degree. The AEI data, however, reflect businesses with an average age of 10.4 years, while Stevenson's research examined self-perceptions both prior to, and subsequent to, startup of a

<sup>33</sup> Source: The Atlantic Entrepreneurial Institute

<sup>34</sup> *The Incredible Journey: Becoming a Woman Entrepreneur*, Lois Stevenson. Unpublished manuscript in process.

business. Women showed lower perceived levels of self-confidence at startup than did men. But both groups changed significantly, as illustrated in Table 5.9.

Stevenson describes the decision to start one's own business as "jumping in a black hole", and comments, "In the black hole, they encountered cash flow problems, employee problems, problems with banks, 80 hour weeks, demands on their personal time and relationships - all of the things which are written about in the literature ... By jumping into the black hole, owners exposed themselves to things they did not understand (cash flow as a crisis), things they could not control (bank problems), things they did not anticipate (personal problems) and change... Being processed through the business changes the owner - it changes and develops their personalities, their values and attitudes, and the way they perceive themselves and their lives. As the business develops and grows, so does the owner."<sup>35</sup>

These findings are particularly interesting with regard to the issue of whether entrepreneurs are born or made. The trait approach assumes that there is a "profile" of characteristics for entrepreneurs, women or men. If one possesses these traits, one will have a higher probability of becoming an entrepreneur, and a successful one. However, Stevenson's findings, and the findings of the AEI research seem to indicate that it is the *process* of operating a business that creates entrepreneurs. It is clear from Stevenson's research that women entrepreneurs generally started their own businesses because they were dissatisfied with their lives, their jobs, their bosses, their relationships, etc. They did *not* possess all the supposed traits of entrepreneurs; they did develop a number of traits, characteristics and habits *as a result of the business experience* which helped them become more successful.

The learning is often difficult, and it varies quite distinctly between men and women. Stevenson found that women entrepreneurs did not feel comfortable initially in the

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<sup>35</sup> *Ibid.*

role of "boss". Instead they wanted to develop an atmosphere of "working together." They tended to be concerned about how to balance being a friend and being a boss. They also experienced an initial fear of "letting go" and often needed to experience a crisis before being able to delegate and trust their employees to do the job they were hired for. Men had these problems to a much lesser degree. Perhaps the self-confidence men show in Table 5.6, combined with their feeling of low risk aversion, gets them started from a different point than women in business. However, as Table 5.8 shows, they feel the changes brought about by business experience every bit as much as their female counterparts, albeit differently.

### *Support programs, systems and information channels*

Many of the needs relating to women business owners in Canada have been identified in studies over the last decade. Five common needs are:<sup>36</sup>

- improved access to financing,
- improved access to information on existing programs, training opportunities, research and other business information,
- new training and counselling programs on preparing marketing plans, financial forecasts, cash flow budgets, business plans and overall management skills,
- facilitation of networking and mentoring, and
- coping strategies for balancing work and family responsibilities.

All the information presented in this chapter confirms the need for these five, and other, types of support and assistance. As more women become self-employed, as their businesses grow and begin to experience different problems,

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<sup>36</sup> *Women in Business, 1992. Op. Cit.*

as they employ more people, as they enter new and different markets that become increasingly global in nature, and as they face the difficulties of finding funding for growth in an economy where many traditional sources of financing are drying up and becoming less and less accessible, there will be an increasingly critical need for support agencies and programs in Atlantic Canada.

Several actions to address these needs have been suggested by various researchers<sup>37</sup>. Among these are:

- provide information on entrepreneurial opportunities in non-traditional industries,
- encourage entrepreneurship among women by creating a positive attitude toward those women willing to take on the risk of starting a business,
- improved marketing by governments and financial sponsors of services applicable to women entrepreneurs,
- research on topics such as rate of return and financial structure of women-based businesses,
- financial and legal assistance to encourage business incorporation among women entrepreneurs,
- need to provide support in the identification and pursuit of business opportunities and in the adoption of existing negotiating skills to the business environment.

Over the past five years, to meet these needs, a number of support agencies, programs and services for women entrepreneurs have been created in the Atlantic region<sup>38</sup>. These are specialized in areas such as financial assistance programs of various kinds (loans, grants, loan guarantee programs), women-focused entrepreneurial and self-employment training programs (for venture start-up and growth), networking or mentoring initiatives, counselling and outreach services, and referral and information services. The Women's Enterprise Bureau of Newfoundland

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<sup>37</sup> *Ibid.*

<sup>38</sup> Wendy Doyle, *Best Practices in Economic Support Programs for Women Entrepreneurs*, prepared for Centre for Women in Business, Mount Saint Vincent University, 1991.

and Labrador is one of the early examples of an agency which provides one-to-one counselling services through six regional outreach offices, publishes a directory of women business owners, and organizes conferences which, using satellite technology, are able to reach across the province. Nova Scotia's Centre for Women in Business, located at Mount Saint Vincent University in Halifax, acts as a clearing house for information on government, financial and consulting assistance, resource materials, and research support services. New Brunswick's Office for Promotion of Women in Business offers a similar range of services. Prince Edward Island is currently supporting a number of initiatives focused on women entrepreneurs.

Conferences in the region, focused on women entrepreneurs and their experiences, problems, and successes have proved to be very helpful. The Nova Scotia Department of Economic Development annual conference, "Women Mean Business", routinely draws about 500 people, bringing potential and current women entrepreneurs together and creating a network. The 1991 Atlantic Convention for Women Entrepreneurs in Moncton attracted more than 325 women from across the country. The Association of Atlantic Women Business Owners (AAWBO), the only member driven women's resource group in Atlantic Canada, has established chapters in Nova Scotia, New Brunswick, and Prince Edward Island to address the needs of women entrepreneurs through sharing information and providing support and encouragement to assist women to reach their entrepreneurial potential. AAWBO is working towards expanding its chapters in all four Atlantic provinces.

Training for female entrepreneurs is provided by groups such as the Centre for Women in Business at Mount Saint Vincent University, and several Community Business Initiatives (CBIs) for women entrepreneurs have been implemented in New Brunswick and Nova Scotia with sponsorship by the Office for Promotion of Women in Business and AAWBO. Henson College, at Dalhousie University, has also mounted an entrepreneurial development

program focused on re-entry women who wish to start their own business.

Financing and financial aid and counselling for women entrepreneurs have been developed by groups such as the Women's World Finance/Cape Breton Association which operates a loan guarantee program for women-owned and women-controlled businesses; the Nova Scotia Department of Economic Development's Women Entrepreneurs Program, which is a capital grant program for new business start-ups; and its Women's Business Development Program.

In addition there have been a number of initiatives which promote entrepreneurship as an option for women and which profile successful examples of women entrepreneurs in the Region. Awards programs recognizing the achievements of women entrepreneurs are on-going in New Brunswick, the Atlantic Canada Entrepreneurship Awards program includes a Woman Entrepreneur of the Year category, and AAWBO began an Atlantic Hall of Fame for Women Entrepreneurs in 1991 to honour the legacy of women in the Region who were involved in their own businesses prior to 1960. MITV's Leading Edge series routinely features vignettes on women business owners from within the Region.

The majority of these programs and initiatives are supported by government funding. It is essential to the region's future economic prosperity that it benefit from the full potential of one of the fastest growing economic resources. But more work remains to be done. Data must be collected over time in order to be able to analyze such things as growth patterns, to measure startup and failure rates for women entrepreneurs and to identify trends and patterns in such areas as employment, products and services. More information is also needed on women entrepreneurs themselves - their values, goals, and management styles; how they are dealing with the conflicting demands of family, community and business; how they are faring in accessing financial sources; and how they are both getting training and experience themselves and supplying training to their employees.

# CHAPTER 6

## CREATING THE ENTREPRENEURIAL ENVIRONMENT

*"The only certainty is that the status quo is no longer an option."*

- opening quote of *Creating Our Own Future:*  
*A Nova Scotia Strategy*, November, 1991.

The decade of the 1990s promises to be a very difficult one for Canada and for the Atlantic region in particular. With national job losses running at about 50,000 per month, and with competition sharpening on all fronts as markets become increasingly globalized, the realization appears to be growing that the country is not experiencing a recession, but rather a major economic restructuring. Traditional remedial actions taken to deal with recession are not having the expected results. For instance, interest rates have fallen to historic lows and inflation is virtually non-existent, however inventory cutbacks continue, and staff cutbacks continue, as does the general trend towards removing overheads wherever possible. In a normal recession scenario, as interest rates decline, capital spending increases, inventories are built up, and sales rise. None of these things appear to be occurring.

The amount of transfer payments Ottawa provides to Atlantic Canada is becoming more and more uncertain. The level of federal funding for health and education has been frozen at the 1989-90 levels. Provincial debt in all four provinces is too high. The impact of such things as the potato virus in Prince Edward Island, the cod moratorium, and the sharp decline in base metal prices is severe, and while it appears the potato virus is now cleared up, there is no certainty that the cod stocks will replenish, nor can a change in metals markets be counted upon.

That there is a new order of business in North America

is clear simply from the statistics on small business. The National Foundation for Women Business Owners' report entitled *Women Owned Businesses: The New Economic Force* (1992), reports that **women owned businesses alone employ 90% of the number of people employed by the Fortune 500.** The statistics that were presented in Chapter 2 show how Canada has changed from being dominated by large businesses to becoming dominated by small business.

The free trade market in North America has created two types of businesses: the high volume suppliers and the niche market specialists. The US is geared up to handle the former, while Canada is adapting to the latter. Canadian plants have historically been smaller and are better suited to a short production run approach. The concept of economies of scale, while still valid in many instances, has moved over to allow room for the equally important concepts of quality, customization, just-in-time inventory, and customer service and satisfaction.

At Avon Canada Inc., any machine that can't be re-tooled within a half-hour is not useful; production runs have been shortened. As the *Globe and Mail* comments, "The old dogma of economies of scale - the more you produce, the lower the average cost - has been shelved as consumers become more individualistic and global competitive pressures reward lean and flexible operations".<sup>1</sup> Materials are ordered in smaller quantities, more frequently. The old system of long production runs meant inventory buildup of products. Avon estimates the costs of holding extra products in inventory more than offsets any economies of scale they might have been achieving. They have reduced their inventories by 25%. Other large Canadian firms moving away from the old "big" approach to production include such household names as Kraft General Foods and Bombardier.

The economic environment of the 1990s is not stimulating businesspeople to rush to the banks or the bond market to leverage themselves with debt (and nor are the

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<sup>1</sup> Ann Gibbon, "Ding-dong, Avon Smalling", *Globe & Mail*, August 18, 1992.

lenders exhibiting great eagerness to part with their money in other than heavily secured, low-risk deals). Growth of businesses has slowed in the last two years, but only partly as a result of world market conditions; small and large businesses alike are exercising caution. The lessons are burned into the collective business psyche: changing markets, changing buying patterns, changing competition all make fixed debt and overheads perilous.

Not surprisingly, Atlantic Canada has experienced an economic slowdown in 1990 and 1991 after seven years of expansion. The Gross Domestic Product for the region is estimated to have fallen by 0.5% in 1991 (GDP fell 0.3% in Canada as a whole).<sup>2</sup> Employment in the region fell by 18,000, or 2% in 1991, driving the unemployment rate to 14.1% from 12.8%. A number of the region's major industries such as pulp and paper and mining are not expected to show strong recoveries as they face structural problems of overcapacity, weak demand, and low commodity prices. The fishery is undergoing traumatic change. **However, despite the decline in the economy, the number of businesses in the region increased by 5.1% between June 1990 and June 1991.**

Some economic trends in Atlantic Canada highlight the problems facing the region. Atlantic Canada has less manufacturing, higher unemployment, lower incomes, and a relatively higher dependence on government spending than Central Canada.<sup>3</sup> Per capita Gross Domestic Product (GDP) in the region has grown faster than the national average over the last thirty years, reaching 71% of the Canadian average in 1991. During the 15 years from 1976 to 1990, total output increased by 50%, the same rate of increase as the nation's. Nova Scotia had the strongest growth rate, at 57%, Newfoundland the weakest, at 33%, Prince Edward Island, at

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<sup>2</sup> *Report on the Economy of Atlantic Canada*. Research and Analysis, ACOA, April 1992.

<sup>3</sup> *Report on the Economy of Atlantic Canada*, Op. Cit.

55%, and New Brunswick at 51%. The 29% lag in per capita GDP growth between Atlantic Canada and the nation as a whole is considered to be principally due to lower productivity (85% of the national average) and a lower share of the working-age population employed (85% of the national average). Lower productivity is considered to be a function of generally lower levels of education and human resource skills and a lower level of technological innovation.<sup>4</sup>

### *Why is entrepreneurship an important part of the solution?*

The North American economy is now in the post-industrial phase, where employment in manufacturing is declining and the service/information sector is growing - a "third stage of development".<sup>5</sup> In the first stage of development the majority of people were engaged in the agricultural sector, and while they paid a rent for their land and lodging in the form of the crops they produced, they were essentially self-employed. The second stage, industrialization, took people from the land and made them into employees, often of large organizations. The decline of industrialization is coinciding with the growth of services. The basic character of the service/ information sector is conducive to entrepreneurship and the creation of small businesses - some of which become very large businesses and spawn billionaires like Bill Gates and Ross Perot.

What is different about the service/information sector is that it does not need "corporate concentration" to survive and grow. In other words, bigness is not a prerequisite for profitability and success. Innovations in the service/

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<sup>4</sup> *Ibid.*

<sup>5</sup> Lyman Porter & Lawrence McKibbin, *Management Education and Development: Drift or Thrust into the 21st Century*, McGraw-Hill, 1988. (The views put forward by Porter and McKibbin are widely supported by observers of industrial and societal trends.)

information sector generally do not require extensive capitalization; barriers to entry in these types of business are lower. The "capital" required is often brainpower and energy. Businesses also tend to have a shorter life cycle which means that stability is less important than in manufacturing, and flexibility and agility are of prime importance. In times of large scale economic and social change like the present, these are precisely the characteristics needed for survival. In addition, bigness is not necessarily an advantage in the service/ information business. (Bill Gates founded his Microsoft empire on the fact that IBM had developed a new product, the personal computer, *and did not have an operating system to run it*. Gates, a small independent had the agility and flexibility to buy an existing operating system, adapt it to the needs of the PC and call it MS-DOS.) And a final characteristic of service/information businesses is that they are also more vulnerable to competition from new entrants, so that as they grow big they tend to spawn new competitors.

Combine these characteristics of the service/information sector with the increase in educational level in society plus an emerging premium on individuality, and a generation of entrepreneurs is born, the stereotype of whom is described by Porter and McKibbin as, "the individual who no longer is satisfied with taking orders from someone he or she does not consider to be his or her superior and who strikes out on his or her own, often competing with the former employer with the know-how obtained during that employment".<sup>6</sup> Downsizing of large organizations is a current fact; job loss as a result of the downsizing is a current fact; the growth of the service/ information sector is a current fact; the growth of small business and entrepreneurship is a current fact; job creation by small business is a current fact; a focus on the allocation of resources to encourage growth in small business and entrepreneurship should be made a current fact.

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<sup>6</sup> *Ibid.*

## *The problems and the blueprint*

**S**o what is being done to support and encourage entrepreneurship in the region? A significant amount of positive work has taken place in Atlantic Canada over the past two or three years. As a recent Nova Scotia study observes, much of the work has been carried out through partnerships between government, educators and the private sector.<sup>7</sup> Traditionally, little attention was paid to the development of entrepreneurs, assuming that they somehow naturally went into business themselves and then grew and developed their businesses. A focus on entrepreneurship development is a relatively recent phenomenon in Canada, largely within the last decade. While there have been a myriad of government support programs for **existing** businesses for some time, programs for **starting** entrepreneurs have only recently begun to appear.

### *The identified problems*

***T***here is a low awareness of entrepreneurship in many parts of the region. While there is currently a great deal of effort being placed into developing entrepreneurship and small business startup and growth, there is still some uncertainty among groups involved at the delivery level, or those that have traditionally been involved in employment programs, as to just what entrepreneurship is, as opposed to general business. The somewhat sterile debate over whether entrepreneurs are "born" or "made" contributes to this confusion. The reality is that they "grow" over time, as Stevenson points out.<sup>8</sup> Becoming an entrepreneur, rather like

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<sup>7</sup> *Entrepreneurship Development in Nova Scotia: A Report on Activities, Gaps and Opportunities*, Applied Management Consultants, 1992. Prepared for ACOA and the Nova Scotia Department of Economic Development.

<sup>8</sup> Stevenson, *The Incredible Journey*, Op.Cit.

riding a bicycle, is something one learns by trying, by doing, by observation. Entrepreneurship awareness and promotion therefore should include such things as the celebration of successful entrepreneurial activity through awards, media coverage and speeches, through the presentation of role models - women and men who have tried it and survived the trial - and through the "telling of stories" (part, at least vicariously, of the learning-by-doing process that is so important. Case studies are a useful adjunct to this process).

*Activities tend to be concentrated in geographic areas where there are government managed or sponsored development agencies.* Governments are the dominant players in entrepreneurship development in the region. The private sector needs to become more involved, perhaps through a partnership arrangement with governments. It is clear that without government, small business and entrepreneurship would be far less well developed. Given what we know about the job creation power of small businesses, support is important. There is some debate, however, over the minimal role private enterprise is playing in developing small business, and the still inadequate role played by the education system at various levels. Are the other necessary partners standing to the side and letting governments put forward all the effort?

*Awareness and orientation programs tend to be concentrated in the urban areas.* Partly as a result of the predominance of government as the major proponent of entrepreneurship, the concentration of activity in urban areas has meant that the entrepreneurship message is not getting out in a practical and useful manner to potential entrepreneurs in rural areas.

*Many new entrepreneurs do not know how to proceed to the startup phase of their businesses.* There is a wide variety of government programs in place to provide information and help on how to start to establish a business, and there are networks and other support mechanisms

available throughout the region. Still, the Nova Scotia study<sup>9</sup> found that the information is not getting to the complete target audience. While the authors of the study suggest that perhaps the problem lies in the delivery systems, the Atlantic Entrepreneurial Institute (AEI) 1990 Survey Report<sup>10</sup> which had responses from 1,320 small businesses in Atlantic Canada, points to a quite different explanation: there are simply a lot of individuals who do not seek information or assistance and who do little or no formal planning and analysis! Of the 1,320 businesses surveyed by AEI, 40% said they had received neither professional nor financial assistance at the time of startup. Given a list of typical business startup activities, almost 30% of the respondents indicated they had performed no activities at startup, including those activities considered important generally - business plans, market research, and promotion. This data prompted the authors of the report to ask "Did these entrepreneurs feel, for example, that they did not need help or did they not know where to find it?"

*Entrepreneurship education and training is varied across the region.* It is generally not part of the education curriculum, with the exception of Newfoundland which introduced it in 1992, although each of the provincial Departments of Education are in the process of piloting courses or working on extensive proposals for introduction of enterprise or entrepreneurship education in 1993. But there are still insufficient learning materials and mechanisms to help instructors or to encourage them to teach entrepreneurship. Some courses have been developed within the curricula of the business schools in the region, but they tend to focus on small business management rather than entrepreneurship. Much of the activity in education is ad hoc.

*The level of entrepreneurship research is limited.* Most

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<sup>9</sup> *Entrepreneurship Development in Nova Scotia. Op.Cit.*

<sup>10</sup> *Small Business in Atlantic Canada: Report of the 1990 Survey, AEI, 1990.*

of the research is initiated and funded by government; with the exception of the Canadian Federation of Independent Business (CFIB) there is little or no research funded by the educational or private sectors. As a result, there is no clear understanding of the kinds of research needed on or by entrepreneurs. As the Nova Scotia study remarks, "There is no information on what kind of development support is best for various kinds of entrepreneurs, at what stages in the development of their business, or when and how this support can best be provided to them."<sup>11</sup>

***Program evaluations outside the federal government sponsored sector have generally not been completed.*** Federal government projects are followed up by third party evaluation studies, but unfortunately there is no legislation which forces other agencies or groups to follow the same procedures, and as a result it is difficult to determine the impacts of many programs, either in the short-term or the long-term. Awareness programs, for instance, are unlikely to show direct results in the short term, and should be evaluated over time using a longitudinal approach which can identify trends and changes.

***Inter-network communication is weak.*** While there are a number of networks in existence such as the Association of Atlantic Women Business Owners (AAWBO), Boards of Trade and Chambers of Commerce, and local economic development agencies, most groups tend to be unaware of what others are doing. There is some overlap of activity and there have been occasions when groups with similar objectives have been competing for the same funding sponsors.

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<sup>11</sup> *Entrepreneurship Development in Nova Scotia. Op.Cit.*

## *The blueprint: How to create the entrepreneurial environment*

**W**hile there is a general recognition that entrepreneurship is an essential component of business vitality and economic development, the question is how to create the environment to develop entrepreneurship.

**Create Champions.** In an environment that is changing so rapidly, there are a great number of important elements on the agendas of government, educators and the private sector. Entrepreneurship has to compete with all of them for prominence. Shrinking budgets across the board are forcing the issue of priorities for all organizations, and money spent on promoting entrepreneurship awareness, entrepreneurship training and education, startup assistance, and support networks must be won in competition with the demands of such important areas as health care, unemployment assistance, education, and infrastructure spending. Taking a page from the book of successful innovative companies, entrepreneurship needs "product champions". Champions must be created in all of the government agencies involved in business assistance. They must be created in community associations, in school systems, in universities, in community colleges, in large corporations which are downsizing, and in financial institutions. The race goes to the persistent, the tenacious, the resolute, the determined and the dogged.

**Develop a Sharper Picture of the Needs of Entrepreneurs.** Many entrepreneurs are either unable or unwilling to partake of the many training and development programs or even financial support programs which are currently available. There is a recognition of the need for training,<sup>12</sup> as the AEI Survey indicates, with 40% of respondents favouring some sort of federal government involvement in training and education of employees. As the Nova Scotia report points out, research and action are needed

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<sup>12</sup> *Small Business in Atlantic Canada: A Human Resources Perspective.* AEI, 1992.

to find the answers to two questions: "What should be done to help entrepreneurs realize that they need support in certain areas of the business, and what methods are most appropriate to help them actually get this help?"<sup>13</sup>

***Establish partnerships between government, public agencies and private groups and agencies.*** The point has been made over and over again in this report that government is supporting most of the effort in the Atlantic region and other sectors appear to accept this leadership. As is always the case in these types of situations, government tends to be damned if it does and damned if it doesn't. In spite of the significant effort expended in government programs, to say nothing of the funds committed and the highly positive results achieved, there are still critics who argue that public servants in agencies intended to help and advise small business are not really familiar with how small business operates and don't fully understand its needs. It is unreasonable to expect people who are not engaged in small business, and whose job it is to administer programs designed to accommodate a wide range of issues, to understand the specific problems of small business intimately. This underscores the need for partnering with those who *are* close to small businesses and who *do* understand their needs. The private sector, the educational sector, and non-profit groups and agencies have people who are close to small business, but greater efforts need to be made to forge partnerships with the government.

***Take training to small businesses and entrepreneurs, not vice-versa.*** The issue of training is highlighted in almost every document concerning economic recovery, change and development. The general need is clear, but the specifics remain elusive. Part of the problem is that not enough research has been done to determine just what training entrepreneurs both need and want. A second, and more important aspect, is the attempt to deal with the problem using old and inappropriate paradigms. Education has historically been delivered in a specific venue and the

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<sup>13</sup> *Entrepreneurship Development in Nova Scotia. Op.Cit.*

learners have come to that venue to receive it. Even though distance learning has made great strides, it still operates within similar paradigms. Instead of the recipients gathering in one specific venue, they now have a choice of a variety of venues, one of which, hopefully is more convenient. *But the customer still has to come to the vendor's place of business, albeit a branch office, and the scheduling and content still tend to be determined by the vendor and not the customer.* Training must be taken to the entrepreneur, at a time and in a manner which is most appropriate to his or her needs. To expect the formal education system, with all its entrenched systems and bureaucracy, to make this major paradigm shift, is not realistic. Which leads into the next point.

*Don't let those with a strong stake in the past dictate the future.* David Birch, in his landmark book *Job Creation in America*,<sup>14</sup> illustrates the point with the example of Japanese TV receiver manufacturers licensing the technology from the United States and then improving televisions through transistorization, thereby taking over the entire industry - because the US firms were busy squeezing the last drop of profit out of their investment in vacuum tube technology. The education industry has a vast investment in their "technology" and in the infrastructure which supports it; agencies have a large investment in their programs aimed at large business, the unemployed, and a number of different sectors; various groups have various vested interests, and so on. It is only natural for these types of groups to attempt to make the needs of the entrepreneur, as customer, fit into the existing framework, technology and infrastructure of the supplier. But the agendas must be recognized for what they often are: efforts to bolster the existing systems and to shore up the power bases. Change always takes place at the margins, never at the centre. The centre is where the mass of weight is, the margins are where the system rasps against the reality of pressures from the outside world. The "centre" - i.e. the entrenched system - cannot be allowed to dictate the future.

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<sup>14</sup> David Birch, *Job Creation in America*. New York: The Free Press, 1987.

Their agendas are too often suspect.

***Develop programs which will bring private enterprise into partnership with government on the issue of training and development.*** It may be time to investigate the European concept of "Training Boards". Very roughly, the concept requires all businesses to dedicate a percentage of revenues to training of employees. The Training Boards monitor whether the firms have spent these funds on training and development, ensuring that the training is appropriate and of adequate quality. Businesses (or for that matter government departments and agencies) which have not done the requisite amount of training forfeit the funds to the Board.

***Encourage striving for success and tolerate failure.*** As Birch points out, this is the predominant characteristic of US business and culture noted by business people abroad. Canada, on the other hand, is noted for its relative conservatism, and Atlantic Canada is seen to move that up a notch. The creation of champions out of individuals who have striven for success, regardless of the degree to which they have succeeded, would create powerful role models.

The Enterprise Cape Breton assessment team working under the chairmanship of Tony Brait made the point that "positive economic change takes time and requires the allocation of adequate financial and human resources."<sup>15</sup> This report on the State of Small Business and Entrepreneurship in Atlantic Canada, 1992, while documenting the remarkable growth of small business in the Atlantic region and highlighting many of the successes, issues and problems, has consistently attempted to make the same point. The country is undergoing a major structural change, politically, culturally and economically. It is not a short term phenomenon. It will not respond to short term solutions. Changes can only be successful if they are pursued tenaciously, persistently, steadily, thoughtfully, consistently, and with a broad strategic focus.

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<sup>15</sup> *From Dependence to Enterprise, Report of the Enterprise Cape Breton Assessment Team* (Brait Report). Prepared for ACOA, 1991.

## *The Characteristics of Regions Where Job Growth Occurs*

David Birch's exhaustive study, *Job Creation in America*<sup>16</sup>, describes the characteristics of regions in the United States where entrepreneurship does *not* take place, where there is no encouragement for entrepreneurship. The characteristics include such factors as: low education levels; strong control of the local economy and politics by a few wealthy families or dominant companies with a stake in the status quo; a remoteness which provides little opportunity to interact with individuals, firms and groups with innovative ideas; a lack of higher education facilities, with the result that young people leave to find educational opportunities elsewhere; a poor climate. Birch makes the point that it is possible to project job growth in a region on the basis of the "reseeding" which occurs. *"If the response to a setback is an entrepreneurial surge, recovery is likely during the next five to seven years. If no surge takes place, recovery is unlikely. If an area is lethargic in starting and nurturing young businesses, its ability to replace the inexorable losses is low and its future as a generator of jobs bleak."*<sup>17</sup>

Birch's study reinforces the importance of a vigorous effort to support entrepreneurship and new business creation. Its conclusion is "that virtually all the variations in growth from one place to another derive from the differences in the rate at which jobs are replaced, and that replacements originate in the formation of new firms and the growth of existing firms". His research, which covered the whole of the United States, indicated that some areas have business formation rates 10 times greater than others. What are the factors which contribute to this growth rate of new business?

In the past, low labour costs, low raw materials costs and proximity to markets and low transportation costs were the

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<sup>16</sup> David Birch, *Op. Cit.*

<sup>17</sup> *Ibid.*

keys to the growth and formation of businesses, often sweetened by tax breaks, subsidies and other extras. This formula worked best in the 1950s and 1960s when large established companies were adding employees. Now they are shedding them. And Birch's data points out very clearly that attracting branch plants tends to increase the volatility of a region, because headquarters make dispassionate decisions of a global nature regarding the disposition of their assets, largely uninfluenced by local conditions.

In the economy of the 1990s, what are the factors that are important? Birch found that what he called "high-innovation" firms are the major job creators in the US, and a low costs approach - low labour costs, low land costs, etc. - is not the way to attract their formation. They rely on brains and quality, not low cost. Birch's conclusion is that the high-innovation company will settle, or start up, in an area that bright, creative people find attractive. Five important aspects of this type of quality environment for innovative companies (and it should be noted that innovation does not necessarily mean high-tech - innovativeness can be found in all aspects and types of businesses) are: quality educational resources, particularly higher education; quality of labour - knowledge, skills, and the interest and willingness to learn and adapt; quality of government - with a strategic view, and supportive but not intrusive; telecommunications; and quality of life.

The blueprint is obvious. Net job growth comes from entrepreneurship and new business creation. Not every new business succeeds, but if the environment is right, entrepreneurs will continue to start new ventures and net job creation will result. The characteristics of regions where entrepreneurship and job creation do *not* occur are clear, and the characteristics of regions where entrepreneurship and job creation *do* occur are equally clear. The task in Atlantic Canada is to create a positive entrepreneurial environment now in order to affect recovery and strong positive growth five years from now.

# ABOUT ACOA

The Atlantic Canada Opportunities Agency (ACOA) is a federal government development agency established in 1987. Headquartered in the region with offices in each of the four Atlantic provinces and in Ottawa, ACOA's goal is to work with Atlantic Canadians to improve the economy of our communities, through the successful development of businesses and job opportunities.

ACOA carries this out by:

- helping people to set up new, and to expand existing businesses,
- marketing Atlantic Canada, nationally and internationally,
- working together with other federal departments, the provincial governments and the private sector within the four Atlantic provinces to ensure maximum benefit for the region.

ACOA seeks to stimulate the entrepreneurial spirit that exists within the region while promoting Atlantic Canadian products in domestic and foreign markets. It sustains and fosters economic growth by working with small and medium-sized businesses as well as with not-for-profit economic partners such as universities, research institutes and business associations. ACOA provides people with business and financial support to help them successfully compete in the marketplace. In addition, ACOA manages the federal government's regional development programs and plays a major role in shaping federal economic policy that affects the region.

ACOA was originally set up with four very distinct mandates:

**ACTION:** Small and medium-sized businesses can obtain financial assistance through the Action Program to carry out feasibility and market studies, design new products or develop new technology, undertake capital investments for establishing a business or for modernizations and expansions and to implement marketing and human resource development plans.

Since 1987, ACOA has funded over 8,000 projects which have created or maintained an estimated 54,000 jobs. The Action Program has sparked new business investment in every province, committing \$773 million in federal expenditures towards a total of \$2.3 billion worth of total investment.

**COOPERATION:** ACOA cooperates with the provincial and municipal governments, and with public institutions such as universities, research centres and industrial commissions to support private sector growth. This includes negotiating federal/provincial agreements that address a broad range of economic needs in Atlantic Canadian industries. Since June 1987, ACOA has signed 72 agreements worth \$1.828 billion (\$1.071 billion in federal share).

The focus of these agreements is on strategic development issues important to the region's prosperity. The main areas on which the COOPERATION program is now focused are entrepreneurship, innovation and technology transfer, marketing and trade development, human resource development, environment, resource competitiveness, rural diversification, strategic infrastructure and tourism.

**COORDINATION:** Coordinating the economic development efforts of the federal government as a whole in Atlantic Canada is part of ACOA's mandate. These have been demonstrated through major projects such as Hibernia and alternatives to the closure of CFB Summerside which are designed to help communities adjust, prosper, and diversify through spin-off activities from such projects. In addition, ACOA initiates consultations with other government departments to identify opportunities for greater coordination.

**ADVOCACY:** Advocating the interests of Atlantic Canadians when national economic policy and spending decisions are being made is a primary focus of the Agency. ACOA ensures that local companies have a fair opportunity to bid on procurement contracts by providing a link between local suppliers and national purchasers.

It also plays an advocacy role on matters of trade and is broadening its Advocacy agenda.

Over the past five years:

ACOA has developed several innovations to its core mandates in response to needs identified from extensive consultations with the businesspeople of the region. Among these new programs and enhancements are the Marketing Assistance Program, the Fisheries Alternatives Program, the ACOA Action Loan Program, and the Human Resources Development Assistance Program.

As ACOA strives to continually respond to the demands of a changing economy, it has focused on key economic development priorities:

**Innovation and Technology Transfer:** to build the inventory of critical technical skills and support systems to fuel innovative technology-related activity, to promote the transfer of technology and to improve the region's competitiveness.

**Entrepreneurship Development:** to increase the pool of potential entrepreneurs, to increase the profile of business owners, to promote business ownership and self-employment as viable options, and to create a more supportive environment in which entrepreneurship can flourish.

**Trade and Investment Promotion:** to increase the number and competitive capacity of Atlantic traders, to promote strategic foreign investment and to advocate Atlantic interests in national trade and investment policies.

**Human Resource Development:** to foster a human resource development (training) culture that recognizes and advances the value of "human capital" in small and medium-sized businesses.

**Procurement and Industrial Benefits:** to ensure that more high quality contracts and long-term industrial benefits flow to Atlantic industry;

**Investment Support:** to assist in the establishment of new businesses and in improving the competitiveness and growth potential of existing Atlantic Canadian businesses which create productive employment with emphasis on small and medium-sized enterprises.

ACOA's efforts hinge on the entrepreneurial and competitive spirit of Atlantic Canadians. ACOA can enhance the

economic climate but the energy, creativity and know-how rests with the people of Atlantic Canada. Building a self-reliant economy is a long-term development strategy and requires considerable investment of time, effort and other resources. ACOA has demonstrated considerable leadership and vision by responding to the innovative and creative project ideas of a variety of commercial and not-for-profit partners to strengthen the economic fabric of the region. It has also been proactive in initiating strategic plans and action. Together, ACOA and Atlantic Canadians are progressing towards a more prosperous future - investing in the future capacity of the region to renew itself.







**Atlantic Canada  
Opportunities  
Agency**

**Agence de  
promotion économique  
du Canada atlantique**

*Helping People Succeed in Business*

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## **About ACOA**

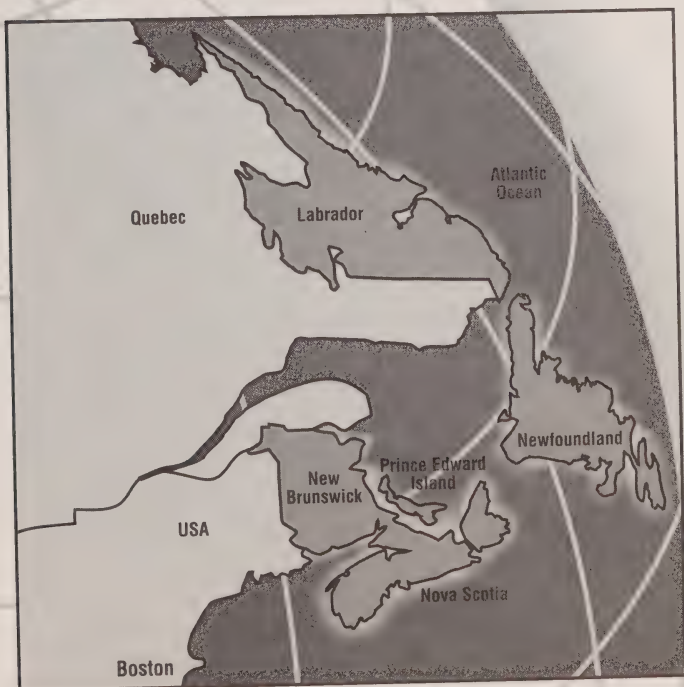
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# **The State of Small Business and Entrepreneurship in Atlantic Canada – 1994**

Third report on small business by the  
Atlantic Canada Opportunities Agency



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# A MESSAGE FROM

The Honourable David C. Dingwall

Minister for  
The Atlantic Canada  
Opportunities Agency



I am pleased to present the third edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*. This book represents a primary piece of current research and intelligence on the growth and development of the business and economic community in which we live.

Even in the fast-changing economic climate of the past two years, small and medium-sized businesses continue to gain importance as significant contributors to the region's economic development and job creation activities. In the face of corporate downsizing and industrial restructuring, new firms continue to be started, pursuing opportunities, creating employment and providing a sense of optimism. Existing firms are positioning themselves for the new realities of the global marketplace, focusing on improving their overall competitiveness and ability to grow over the long term.

ACOA is committed to working with Atlantic Canadians to find innovative solutions to the region's economic challenges. This has led us to focus on enhanced competitiveness, not only of individual businesses, but of industries, and indeed the region as a whole, as a place to do business. This means strengthening the level of entrepreneurial and management skills, making greater use of existing technologies, creating a more flexible workforce and continuing to develop our outward orientation. We must maximize the potential to be

realized through the development and pursuit of opportunities by the region's entrepreneurs - opportunities created by new products and services, new technologies, new markets, re-engineering of traditional businesses and industries and by the emergence of new industries. And we must focus on making the many adjustments required to deal with the reality of decreasing reliance on resource-based industries and government. This leads us to issues of skills upgrading and re-training, preparing new graduates for jobs in the "new economy" and making the self-employment option more possible for people who wish to develop their own ideas into businesses.

We must work together to focus on strengthening our economic base and becoming more efficient and strategic in everything we do. I believe that the data and insight provided in this report can help entrepreneurs, policymakers, educators and corporate leaders to better understand the economic climate in which small and medium-sized business is operating, the dynamism of this sector and its impact on regional economic development. Combined with the 1991 and 1992 reports, this trilogy provides a comprehensive look at the many dimensions of creating a more vital entrepreneurial economy through the promotion and support of new venture creation and growth of existing firms.

I trust that you will find the 1994 edition as informative and useful as I do.

A handwritten signature in dark ink, appearing to read "David C. Dingwall". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

David C. Dingwall

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This is the third issue of *The State of Small Business and Entrepreneurship in Atlantic Canada*. The 1991 report was the first comprehensive effort to provide a resource and reference tool to document the specific role of new and small business in the regional economy and to articulate how Atlantic Canada compared to the rest of the country. For the first time, government policy makers, researchers, educators, economic development practitioners, and others interested in the small business and entrepreneurship phenomenon were able to base their positions on concrete evidence of the extent and impact of small businesses in the region and to understand the make-up and dynamism of this sector of the economy.

Strong demand for the 1991 report led to a reprint and requests for the 1992 issue continue to be received. The 1994 report further advances knowledge about the developments of the entrepreneurial phenomenon, updating statistical trends for the 1989-91 period and profiling recent research on the factors influencing "growth" within small and medium-sized firms and the nature of small business counselling services which are provided through various agencies in the four Atlantic Provinces.

Compiling a report of this nature requires a collaborative and focused effort and the contributions of several individuals and organizations must be acknowledged.

The report is authored by Donald Rumball, one of the country's leading experts on small business trends and author of "The Entrepreneurial Edge", and Robin Stuart-Kotze, an internationally acclaimed management consultant, educator and textbook author. They were guided in the work by an Editorial Committee established by the Atlantic Canada Opportunities Agency. Special thanks go to both Donald Rumball and Robin Stuart-Kotze for their analysis, insight, and coherent writing, and to Nora Henderson, David Carpenter,

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Lois Stevenson  
Chairperson, Editorial Committee

# **EXECUTIVE SUMMARY**

## **BRAVE NEW WORLD**

The Atlantic region is in the midst of an unprecedented process of sustained restructuring that is simultaneously eroding its traditional economic base and developing the infrastructure for the new economy that will take its place. Primary industries, which provided employment to 30% of the workforce in 1951 now employs only 8%. The employment lost in this sector has been replaced by a corresponding increase in Community, Business and Personal services (up 18 percentage points) and governments (up 4 percentage points).

It will not end there. The threats looming in the coming 40 years pose far greater challenges. Among them:

- the progressive shrinking of the natural-resource base;
- the shrinking of government; and
- the elimination of inter-provincial trade barriers and the implementation of the North American Free Trade Agreement.

Governments everywhere in the world are struggling with the challenge of creating jobs in an environment where money can no longer necessarily buy long-term jobs. The solution lies in teaming up with entrepreneurs who can build up the economy from the grassroots.

## **SECRETS OF GROWTH**

### **A Statistical Perspective on the Volatility of Small Firms**

Over the 10 years from 1979 to 1989, the total number of firms in the region grew by 56%, the outcome of a tremendous amount of turbulence. There was unprecedented activity in firms with fewer than five employees - the number of start-ups was 34% more than the *total* number of firms of that size that existed in 1979. In the course of the decade 1979-89, of the firms that existed in 1979:

- more than half went out of business in the decade;
- one fifth were in a different size category by 1989; and
- only one third employed about the same number of people in 1989.

This report examines what went on in the volatile two years of restructuring that followed this decade. The rate at which firms went out of business during 1990-91 was significantly higher than for the 1980s. During 1980-89, 56% of the firms that existed in 1979 no longer existed in 1989; but in the two following years, 32% of the firms that existed at the beginning no longer existed at the end. Almost 40% of the firms with fewer than five employees that existed in 1989 no longer existed in 1991. Even mid-sized and large firms were disappearing at twice the annual rate of the previous decade.

This did not discourage entrepreneurs, who kept starting and growing businesses through the worst economic conditions in living memory. New ventures in two short years increased the number of firms by 35%, an annual rate more than half as much again as in the previous decade. For firms with fewer than five employees, startups added 41% to the number of firms in two years.

The flip side of this coin - the firms that downsized without going out of business - was not a pretty picture in 1989-91. Of the total number of firms in 1989, 4% dropped down at least one size category, compared to 3% for the whole decade to 1989. The impact was worst in the largest firms, where 7% shed enough labour in two years to drop them into lower size categories, compared to 4% for the whole of the 1980s.

The impact of this churning on employment levels is dramatic. In 1989-91, while total employment dropped 11,200, the "growers" (who jumped at least one size category up) contributed 31,700 new jobs, and startups created 56,200. In 1979-89, the growers contributed only a third of the jobs contributed by startups.

The "sliders" (firms that shed enough labour to drop at least one size category down), lost 36,000 jobs, however, and the firms that stayed in the same category over the two years managed to drop more than 8,000 people from their payrolls.

To find the firms that made the biggest difference to employment, one way or the other, a special analysis was made of the firms that jumped or declined two or more size categories. A handful of 118 firms (0.2% of all Atlantic firms in 1989) fit these criteria and they created 6,200 jobs in two years. Almost half of the jobs created (3,200 of 6,700) by these high-growth firms came from a mere 34 firms with 5 to 19 employees each in 1989. These firms had started with a total of 100 employees all told in 1989.

The big losers were almost as spectacular. Only 0.3% of all the firms that existed in 1989 shed enough labour to drop down two or more size categories, but they lost 9,000 jobs in the process - close to the amount lost by all firms in the region as a whole. The biggest losers here were the 71 firms that started out with 100 to 499 employees each: they employed 5,700 people in 1989, but lost 4,800 to end up with 900 between them.

### **Strategies for success**

Statistics Canada investigated the factors that differentiate more successful growth-oriented small and medium sized enterprises (SMEs) from less successful ones. The research examined the strategies, activities and characteristics of 1,480 SMEs across Canada - both the stated intentions of the enterprises and their actual focus and activity.

The survey asked respondents to rank order the importance of eight factors which determine growth in small and medium sized firms - i.e. where SMEs say they place their emphasis. The firms ranked the factors as follows: (1) management skills, (2) skilled labour, (3) marketing capability, (4) access to markets, (5) cost of capital, (6) ability to adopt

technology, (7) R&D innovation capability, and (8) government assistance.

However, when the research team examined the activities and programs that growing small and medium sized enterprises actually stressed - where they *actually* spent their time and money - they discovered that the highest growth SMEs were differentiated from the lower growth SMEs by three factors: R&D capability, access to markets, and technological capability. Higher growth SMEs stress factors related to innovative capability. They focus on developing something new, different and unique. Quite clearly, management skills, marketing ability and skilled labour are essential elements in facilitating this focus on the development of products and services which are differentiable in the marketplace, but they tend to be the foundation upon which such activities as R&D, technology capability, and market access can be leveraged.

Although SMEs ranked government assistance lowest in importance to their success, in fact high-growth SMEs use these programs in a selective and effective manner. The higher growth SMEs use export incentives, R&D tax incentives, market information services, and industrial support programs to great advantage. Both procurement and training programs tend to be general and broad-band in nature and it appears that training, in particular, needs to be tailored to the enterprise's specific needs at a specific time.

### **Strategies of Growing Small and Mid-sized Enterprises (GSMEs)**

GSMEs were asked to describe how they implemented strategy in the areas of six practices: management, marketing, human resources, technology, production and utilization of government programs. In each case, they were presented with a list which ranged from aggressive and innovative approaches to more staid and conservative approaches.

Higher growth GSMEs adopt more aggressive strategies. For instance, a strategy of focusing on new products in new

markets correlates more highly with growth than the more conservative approach of selling existing products in existing markets. Strategies of developing new technology, improving existing technology and refining the technology of others have a clear effect on growth and success, while using the technology of others correlates with lower rates of growth and success. Higher growth SMEs take an aggressive approach to production strategies, placing more emphasis on the use of new materials and using existing materials better.

With human resource strategies, they focus on innovative compensation packages, while making sure they also cover the essential human resource factors of motivation and training. With regard to management practices, the same picture appears. The focus is on things like just-in-time inventory systems and process control, while making sure that a focus is maintained on Total Quality Management.

With regard to capital structure, higher growth SMEs rely less on retained earnings and accounts payable, and instead utilize short and long term debt in their balance sheets. Retained earnings are seen as a foundation element in the structure of the firm, but not sufficient to enable market share or profitability growth.

## ***BUSINESS COUNSELLING***

How is assistance given to small businesses to help them into and through the fledgling stage? There are a wide variety of services being offered in the region, including the promotion of entrepreneurship as an employment option, self-employment training, counselling people in the early stages of venture development, the provision of advice and information, referral to other sources of assistance, assistance with development of business plans, financial assistance, and problem-solving for existing small firms. Advice covers areas ranging from preparing business plans, budgets and financial

proposals, to market research, tax planning, hiring and firing, production techniques, and so on.

It is estimated that there are about 3,000 people in the region employed in providing this assistance to small business, primarily in publicly funded agencies and organizations, economic commissions, small business development centres, and various government offices. A sample of these professionals was surveyed in 1993 in order to clarify the picture of who they are, where they are, what they do, who their clients are, and what their major focus is.

In these agencies and organizations, a variety of services are provided: business advisory and counselling services; financial assistance; self-employment or management development training; marketing assistance; technical support; export assistance; and some accounting/bookkeeping, human resource management, employment generation or facilities management services. Fees are generally not charged.

Work experience of counsellors in the region tends to be related to small business, with about half of the sample reporting they had either owned or managed their own business or had management experience. Counsellors with related organizational experience or who have taught either business administration or entrepreneurship account for roughly another third. Approximately 70% of the respondents have more than four years of experience in business counselling and 30% have had more than 10 years experience.

The top five time demands placed on small business counsellors by their clients are:

- responding to general inquiries,
- business plan preparation,
- evaluating funding proposals,
- financial counselling, and
- marketing counselling.

Few professionals spend any significant amount of their time on direct counselling to analyze and solve specific business problems. The clients with whom counsellors spend the

most time are pre-business startup, owner/entrepreneur, associations, and managers in small/medium sized business. Most counselling in the region is done in the initial up-front stages of business creation with relatively new, inexperienced entrepreneurs.

They experience most difficulty in counselling in the areas of technological innovations; dealing with a client's lack of basic business knowledge; market and marketing strategies; import export; and research and development. They find least difficulty in: providing information on assistance programs; providing general business advice; identifying financial sources; providing province-specific information; and record keeping.

These professionals are strongly committed to upgrading their skills and continuing their development. They identified 10 subject areas for development of further knowledge and skill to enhance their counselling capability and a range of tools and resources which they felt would make them more effective in their counselling work.

## ***RECESSION FIGHTERS***

The economic restructuring that began in 1990 and took hold in 1991 led to a sharp reversal in employment growth. The trend observed in last year's report, however, still holds - Atlantic Canada suffers less in bad times and benefits less in good times.

For both the Atlantic region and the country as a whole, the loss of jobs was significantly worse this time around than at the start of the last recession, in 1982. For small firms, the contrast was even more pronounced: after a decade of extraordinary strength, when they consistently outperformed big firms in job creation, small firms in Canada were hit harder than big firms in the current restructuring.

However, in Atlantic Canada, the pattern of previous years held, as small firms lost jobs at a slower rate than big

ones. On average, the region was very close to the Canadian average in the 1980s, with small firms increasing employment by 6% a year across the country. The comparable trend in big firms is less consistent, being driven by regional factors to a greater degree. Nationally and regionally, big firms stood still over the nine years of the economic cycle, with an increase in employment only marginally above zero.

The composite figures for growth of small firms hides significant variations between the smallest firms (those employing fewer than five people) and the bigger ones employing 50 to 99 people. The smallest firms have expanded their employment by 14.3% p.a. from 1982 to 1991, compared to 3.1% for firms employing 5 to 19 people, 2.4% for firms employing 20 to 49 people and 1.2% for firms employing 50 to 99 people.

This performance of the larger small firms was close to Canada's and is encouraging for the region because it is these firms that are most likely to strengthen the small-business base of the regional economy.

It is notable that firms employing more than 500 people have performed consistently poorly since 1980. With the exception of 1988, when they went on a hiring binge, these organizations were static in the remaining 12 years, shedding labour in five of the years and growing by very small amounts in the other seven. The average for the last 10 years came in at a net loss of 0.4% p.a. for organizations employing more than 500 people, compared to a growth of 5.2% for all small firms employing fewer than 100 people.

The importance of small firms is even more pronounced in the market sector. Over the seven years to 1991, big firms in the market sector lost 6,200 jobs, while small firms created 91,900 new jobs, or 107% of the total new jobs created in the market sector. The downsizing of large firms was particularly evident in 1991, when large firms shed 13,400, or double the net jobs created by their sector over the previous six years.

By contrast, in the funded (government) sector, big organizations contributed 12,200 new jobs compared to the 17,300 (or 59% of the total) created by small firms. Clearly, the government-supported sector is the only one feeding job growth in large organizations.

Organizations employing more than 500 people now account for less than half of total employment (48%), compared to 54% in 1980. Meanwhile, the firms employing fewer than 50 have raised their share of the workforce to 32% from 26%. In both cases, two-thirds of the change has occurred between 1985 and 1990 (mostly in 1990 and 1991).

### **The Business Count**

This evolution in the balance between small and big organizations can also be seen clearly in the count of businesses in the region. The total number of firms has increased significantly: in the 10 years to 1991, the total increased to 87,700 from 57,100. The power, however, is in micro firms (employers of fewer than 5 people), that have been growing at an average annual rate of 5% since 1981, while the number of large employers has actually declined by 0.5% a year. Over the 10-year period, the number of firms in the region with fewer than five employees grew to almost 65,000 from about 40,000.

### **Self-employment in context**

Self-employment is more developed in Canada than in the Atlantic provinces:

- 7.2% of the workforce is self-employed in the region, compared to 9.5% for the country.
- The percentage of owner-managed businesses that are incorporated is lower in the region - 26% compared to 34% for the country as a whole.
- The percentage of the self-employed who are women is slightly less in the region (25.4%) than in the country (28.0%), despite an almost identical proportion of women in the workforce as a whole.

About 15% of the region's self-employed have less than a grade 9 education, compared to 10.7% for the country. The most important reason for this difference is the different industrial mix in the region's self-employment. More than one quarter (28%) of the region's self-employed are in primary industries, compared to 19% for Canada. By contrast, business services, which is the fastest growing industry sector, accounts for only 7% of the region's self-employed, compared to 12% nationally. It is interesting that primary industries have the highest rate of self-employment of any sector - 32% of Canadians who work in the primary industries are self-employed, compared to 25% in the region. The next highest self-employment rate is business services, with 20% nationally and 15% regionally.

### **A decade of transition**

The make-up of the self-employed population in Canada changed rapidly during the 1980s:

- The rate of self-employment in the workforce rose to 9.5% from 9.1%.
- The percentage of self-employed people whose businesses are incorporated went to 34% from 30%.
- The percentage of the self-employed who are women rose to 28% from 19%.

The self-employed as a whole represented more than 11% of the increase in the workforce over the decade. Most remarkable, however, is the change in women's participation in self-employment. Women represented two-thirds of the increase in the number of self-employed people. This phenomenon is perhaps less remarkable when it is noted that women represented more than two-thirds of the increase in the workforce over the same period, but the impact on the self-employed is more powerful than in the workforce as a whole. In the course of the decade, the total number of self-employed women increased 87% to 383,000 from 205,000.

### **It takes time to make an entrepreneur**

The average age of entrepreneurs (43) is markedly higher than that of employees (36): the percentage of self-employed people who are younger than 25 is less than 5%, compared to 20% for employees. Only one quarter of the self-employed are younger than 35, compared to almost one half of employees. Clearly, self-employment demands experience as well as enthusiasm.

At the other end of the scale, 18% of the self-employed are 55 or older, compared to 8% of employees.

### **It pays to be self-employed**

The lure of self-employment is at least partly because the self-employed earn more than employees. The average income of the self-employed was \$36,000 in 1991, compared to \$27,000 for employees (a premium of more than 30%). It's even bigger for incorporated owners, who averaged \$44,000, compared to \$32,000 for unincorporated businesses.

Self-employed women are more concentrated than men in the lower-paying unincorporated businesses, yet their incomes rose faster than that of men during the decade (104% compared to 85%). Almost 60% of self-employed women have a post-secondary education, compared to 49% for men. Incorporated (and therefore more experienced) women have a smaller income gap than do unincorporated women, who are, with the exception of professionals, generally newer to self-employment than men.



# INTRODUCTION

The first in this series of *The State of Small Business and Entrepreneurship in Atlantic Canada* reports was published in 1991, beginning an effort to benchmark what is happening in the region and to explore the key issues which affect the growth and development of small business and entrepreneurship.

Each of the reports has aimed at articulating what it takes to create and enhance the climate for entrepreneurship and to support and stimulate the small business explosion. Each makes the point that entrepreneurs need to have a supportive and hospitable environment, plus the necessary infrastructure, if they are to flourish. Each report has hammered home the very important fact that small business fuels virtually all the growth in employment in the region, much of this coming from new and "micro-firms" with fewer than five employees.

The 1991 report described the phenomenon of this growth as an "entrepreneurial wave", but it took pains to differentiate entrepreneurship from small business, making the point that the former implies a commitment to growth. This theme of growth is carried forward in the current report, as we examine the factors which differentiate those firms which have a rapid rate of growth and high levels of success from those which grow and develop more slowly.

Consistent themes have been woven through the series, exploring certain areas in depth within each separate report, but always returning to the basic themes. Themes which have been addressed include:

- the importance of entrepreneurship education and training;
- the need for counselling and support services;
- the structures and problems of financing;
- the increasingly important role of women entrepreneurs;

- the necessary elements of infrastructure; and
- the critical areas of emphasis for success (information necessary to enter and expand markets, improved management skills and abilities, and developing innovative products and services).

In each case, the focus was on establishing the priorities for action by governments, the private sector, and entrepreneurs themselves. Broad based and general approaches to the economic problems of Canada and the Atlantic region are no longer appropriate. The federal government is facing the problem of dealing with a debt in excess of \$500 billion and one of the consequences is an examination of programs and their effectiveness. Money and effort will be expended only in areas where the return is greatest.

The State of Small Business and Entrepreneurship reports have attempted to provide a framework for setting priorities; they have developed and explained research on entrepreneurship, covering the characteristics of small business and their owners, how businesses are born and die, how they survive and grow, how and where they create employment and wealth, the problems entrepreneurs face, the types of support that are most beneficial to them and which yield the greatest return to the providers of this support. Government needs to know where best to allocate resources, just as entrepreneurs do. Both groups are faced with immense pressures and the margins for error are increasingly slimmer for both.

The 1991 report made the point that: "The long-range objective is to create an environment in which entrepreneurship is widely perceived as an attractive and feasible career/employment option, to contribute to increased job creation, to increase the wealth generating ability of the region and to build the overall level of self-reliance and confidence of Atlantic Canadians."

These objectives remain valid today, and significant progress has been made towards achieving them. For example, since 1991, enterprise education has become an important

part of the curricula in schools and post-secondary institutions in all four provinces. There is strong acceptance of the fact that the success of the economy will depend very heavily on the development of people, and that entrepreneurial spirit is a critically important element of the human resource mix.

However, economic crises continue to push the need to accelerate our efforts. By the early 1990s, it had become clear that a psychology of dependency had developed within the regional labour force. This problem forms the context for the move to focusing on entrepreneurial behaviour and the creation of an entrepreneurial culture, climate and infrastructure in Atlantic Canada. Adverse conditions continue to be exacerbated by further downsizing of large corporations and governments and the decline of traditional resource-based industries. The challenge is to adjust to the demands of the "new economy". Revitalization and renewal will call for innovation, flexibility, adaptability, self-reliance, development of new skills sets and attitudes, and a new kind of economic infrastructure.

This series of reports is intended to provide an important benchmark for progress in the battle to create an entrepreneurial climate and culture, and to support the growth and development of entrepreneurs and small businesses. An axiom of change states "What gets measured gets changed". *The State of Small Business and Entrepreneurship in Atlantic Canada* reports direct the spotlight onto the important, high priority areas of small business development, growth and job creation. They have enjoyed wide circulation, reaching audiences from high school students to financiers and have focused attention on what has been done, what exists, and what needs to be given attention. This third report is no exception.



# Chapter 1

## BRAVE NEW WORLD

The Atlantic region is in the midst of an unprecedented process of sustained restructuring that is simultaneously eroding its traditional economic base and developing the infrastructure for the new economy that will take its place. Some idea of the extent of the shift can be gleaned from Table 1.1 below.

*Table 1.1<sup>1</sup>*  
**Employment Changes**

Percentage of total employment in each industry sector for the Atlantic provinces in 1951, 1971 and 1991 and for Canada in 1991

Industry	Distribution of employment			
	Atlantic			Canada
	1951	1971	1991	1991
Primary	30%	10%	8%	6%
Manufacturing	15%	15%	13%	15%
Construction	6%	9%	7%	6%
Transportation, Communications & Utilities	12%	10%	8%	7%
Trade	14%	17%	17%	17%
Finance, Insurance & Real Estate	1%	3%	4%	6%
Community, personal and business services	14%	25%	32%	35%
Public Administration	8%	12%	12%	8%
All industries	100%	100%	100%	100%

It's no surprise there has been a dramatic shift away from primary industries, although the region still had a higher proportion of its labour force in this sector in 1991 than did Canada. The employment lost in primary industries was replaced by a corresponding increase in Community, Business and

<sup>1</sup> Source: *Census 1951, 1971 and 1991*. Statistics Canada

Personal services (up 18 percentage points) and governments (up 4 percentage points).

Among the changes in the private sector, it is notable that manufacturing lost only two percentage points in the region over the 40 years, falling to 13% from 15%. In Canada as a whole, manufacturing's share fell to 15% from 20% over the same period. At the end of this adjustment, the two biggest differences between the region's and the country's employment distribution were in Community, Business and Personal services (where Canada has 35% of its jobs, compared to 32% in the Atlantic) and in government (where Canada has 8% compared to the region's 12%).

This kind of structural adjustment is not a pretty or a neat process. It is dotted with news of potentially disastrous developments like the collapse of the fishery, or the closing of military bases and the departure of branch plants of major international firms. Unfortunately, it is insufficiently dotted with stories of the many small triumphs by entrepreneurs who have tilted against the full force of international competition and succeeded.

No matter how it is perceived, however, there is no denying the enormous challenge of developing the new economy fast enough to take up the slack of the declining old economy.

Last year's *State of Small Business and Entrepreneurship* outlined the growing threats to the region's economic prospects and detailed the first signs of an emerging acknowledgement that entrepreneurship represents a critical part of any program to restore the region's economy. Equally, however, it acknowledged that there remains a great deal still to be done. Despite strong signs of a steady increase in the number of people who are thinking of starting a business of their own, the general level of entrepreneurial competence is not yet where it should be.

The report identified the obstacles limiting the development of entrepreneurs and described some techniques for

overcoming them. In particular, it listed the five conditions necessary for a community to become a magnet to dynamic, growth-oriented entrepreneurs:

- Quality educational resources
- Quality labour (adaptable, willing to learn)
- Quality government (strategic, not intrusive)
- Telecommunications and
- Quality of life

The Atlantic region is remarkably well endowed with all these advantages and it is showing definite signs of an emerging interest in entrepreneurship. However, the pace of change in the past year or so has exceeded all expectations. The economic base of the region is under immense pressure to adapt to the realities of the 1990s, which include:

1. The progressive shrinking of the natural-resource base (the fishery, forest products, mining). Rio Algom closed its tin mine in Yarmouth, Nova Scotia, Fraser Inc. closed its forest products plant in Atholville, New Brunswick, to mention just two of many such examples.
2. The shrinking of government, which will affect the region both in terms of diminishing the flow of funds into the region and the purchase of goods and services from the region. Some of the pertinent trends include: armed forces cutbacks (closure of the American base at Argentia in Newfoundland and cutbacks at CFB Cornwallis, Nova Scotia), federal government agencies becoming more selective in where they apply their resources, provincial governments cutting back everywhere and reassessment of the social security safety net, including a major reassessment of Unemployment Insurance. As Table 1.1 shows, the region has a disproportionate share of its labour force in public administration, which makes it more vulnerable to adverse impact from these trends.
3. The elimination of inter-provincial trade barriers and the implementation of the North American Free Trade Agreement will reduce or eliminate the incentive for large

companies to keep branch plants in the region. If they are to survive, branch plants will have to acquire world product mandates or else develop a high level of expertise in a particular facet of the company's operations. Furthermore, the rationalization of business as a result of globalization is causing established products to decline suddenly and be replaced by new ones. Sears Canada, for example, closed its catalogue division in Halifax with a major loss of jobs. Even some locally-based companies are rationalizing their operations in the region - like Moosehead Breweries, which is closing its plant in Dartmouth. The energetic efforts of New Brunswick to build excellence in the province in telecommunications and bilingual direct marketing is a good example of a successful strategy to pursue opportunities in the "new economy".

The most significant outcomes of these pressures will be the loss of jobs in sectors that have for many years been considered the mainstay of the region's economy. It is therefore imperative to find a way of creating employment in the region to prevent a population leakage into other regions of Canada or other countries.

Entrepreneurship lies at the core of any and all solutions to this challenge. Governments everywhere in the world are struggling with the challenge of creating jobs in an environment where money can no longer necessarily buy long-term jobs. The solution lies, rather, in teaming up with entrepreneurs who can build up the economy from the grassroots.

In later chapters in this book, we show that self-employment in the region is lagging the country as a whole. Atlantic Canada needs entrepreneurship more but has developed it less, despite some excellent progress in the past few years. This translates into five major challenges:

- ✓ *Training.* Young and/or putative entrepreneurs need a wide range of skills to succeed as entrepreneurs, and they are not born with them;

- ✓ *Assistance for growth.* Some existing entrepreneurs who have shown they have the skills to start a company, are ready to expand their businesses, but they don't have the (quite different) skills to manage growth. They need tailor-made counselling and assistance.
- ✓ *Education.* It is critical that we inject entrepreneurship into the educational system as a basic requirement - not that everyone will become an entrepreneur, but that they will all appreciate the importance of entrepreneurs.
- ✓ *Adoption of modern technology.* As this report shows, research and development is not as critical an issue as is often believed - but adopting what has already been developed is enormously important.
- ✓ *Human resource management.* In a world that moves so fast, it is no longer possible to control everything, so any business that wants to succeed - and especially those that want to grow - must learn to harness the energy and expertise of other people. That means they must be competent in the management of human resources. All the concepts talked about in previous reports (lifelong learning, competitiveness and so on) come into play in this issue.

These are delicate operations. As Chapter 2 shows, the rise and fall, birth and disappearance of smaller firms is volatile in the extreme; the skills required to succeed once firms take the plunge to go for growth are many and varied. There is no substitute for the individual entrepreneur, so the economic goal is to develop a culture that understands the needs of entrepreneurs and breeds them.

The role of government is to understand the process and offer support and advice wherever possible to facilitate the process of growing entrepreneurs in the region. In Chapter 3, we look at some of the counselling programs that are the first steps in building this important aspect of nurturing entrepreneurs.

And in Chapter 4, we analyze the impact of entrepreneurs over the past 15 years, through two severe recessions and the longest period of sustained growth in living memory. There's never a dull moment.

## Chapter 2

# SECRETS OF GROWTH

**I**n last year's report, we demonstrated the extraordinary "churning" that goes on in small firms, as they start, grow, merge, decline or die - and start all over again. This year, we are updating that analysis to look at what happened to small firms as the recession hit in 1991. Then we will review the findings of an extensive study that examined what differentiates firms that can grow successfully from those that cannot.

### ***A Statistical Perspective on the Volatility of Small Firms***

Over the 10 years from 1979 to 1989, the total number of firms in the region grew by 56%, but it was not a smooth ride. There was unprecedented activity in firms with fewer than five employees - the number of startups alone was 34% more than the *total* number of firms of that size that existed in 1979. In the course of the decade 1979-89, the record of the firms that were operating in 1979 was varied: the most dynamic 6 out of every 1,000 (0.6%) Atlantic firms accounted between them for more than 11% of the total number of jobs created in the region; more than half the firms went out of business in the decade; one fifth were in a different size category in 1989. Only one third of the firms that existed in 1979 employed about the same number of people in 1989.

This section examines what went on in the turbulent two years that followed this decade (which encompassed the longest economic boom in recent memory) and finds that the churning did not slacken<sup>2</sup>. The size of firm makes a big differ-

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<sup>2</sup> This difference is slightly exaggerated by a change in statistical methodology from 1989. In the earlier series, the recorded numbers of births and deaths of firms was adjusted to weed out situations where a firm was sold (which would normally count as a simultaneous birth and death) or went dormant for a period before restarting. The later series has not yet made this adjustment, which may represent a difference of up to 15% of the numbers shown.

ence in this analysis, so the evolution in the number of firms and their employment is examined by size categories: four categories for small businesses (those employing fewer than five employees, up to 20, up to 50 and up to 100), one for mid-sized firms (100 to 499 employees) and one for big business (500 or more employees). A firm's size category is determined by its employment at the national level, but the numbers discussed in this report deal with the regional component of the national totals. For smaller firms, of course the national employment is the same as the regional!

The restructuring of this decade has meant that the rate at which firms went out of business during 1990-91 was significantly higher than for the 1980s. During 1980-89, 56% of the firms that existed in 1979 no longer existed in 1989; 32% of the firms that existed in 1989 no longer existed in 1991, as Table 2.1 shows. This is three times the rate of the earlier period (which included the 1982-83 recession which was then considered to be the worst since the Great Depression).

Almost 40% of the firms with fewer than five employees that existed in 1989 no longer existed in 1991. Even mid-sized and large firms were disappearing at twice the annual rate of the previous decade. This is no surprise, given the number of people affected by the restructuring. What is less appreciated, however, is the degree to which entrepreneurs kept starting and growing businesses through the worst economic conditions in living memory. Instead of lying low, as most expected them to do, new ventures in two short years increased the number of firms by 35%, an annual rate more than half as much again as in the previous decade.

For firms with fewer than five employees, startups added 41% in two years to the number of firms that existed in 1989. This may reflect involuntary self-employment for people who were laid off and had no alternative, but it's unlikely this phenomenon changed the trend, because startups were strong for firms with more than five employees - and it takes a while for newly self-employed people to start hiring.

**Table 2.1 <sup>3</sup>**  
***Big churning in bad times and good***

Turnover within each size category of firms during the period shown - from start ups, cessation of business, growing into larger size categories, declining into smaller size categories or coming into the size category from growing and declining firms that were in other size categories - expressed as a percentage of the firms in the first year of the period. Atlantic Canada, 1979/89 and 1989/91

Type of change	Turnover within each size category of firm (by number of employees), expressed as a percentage of the number of firms at the beginning of the period						
	<5	5-19	20-49	50-99	100-499	500+	Total
<b>1989/91</b>							
1989 firms	100	100	100	100	100	100	100
Went out of business	38	14	20	25	21	16	32
New entrants	41	15	21	29	27	19	35
Inflow *	4	21	25	35	16	6	8
Growers *	3	5	9	14	4	0	4
Sliders *	0	18	20	17	11	7	4
Net change by 1991	3	(2)	(4)	8	6	2	2
<b>1979/89</b>							
1979 firms	100	100	100	100	100	100	100
Went out of business	60	46	48	54	53	44	56
New entrants	134	73	65	65	48	26	112
Inflow *	3	54	83	108	40	22	20
Growers *	12	21	45	61	20	0	16
Sliders *	0	13	14	11	5	4	3
Net change by 1989	64	46	41	48	10	0	56

\* Notes: Growers are firms that existed in the base year (1989 or 1979, as the case may be) and grew sufficiently to be classified in a larger size category by the end of the period. Sliders are the same except that they have declined to a smaller size category by the end of the period. Inflow for a particular size category is the other side of the coin: this counts the sliders and growers from other size categories that end the period in the size category in question.

Totals may not coincide with the sum of some columns due to rounding.

<sup>3</sup> Source: The statistics in this section are based on *Growing and Declining Business Report, Atlantic Canada, 1989-91*, prepared by the Small Business and Special Surveys Division of Statistics Canada, 1993. This is a special run of *Employment Dynamics*, the data base used extensively elsewhere in this report.

For example, startups of firms employing 5 to 19 people added 15% to the total firms of that size in 1989, which represents the same annual rate for this size of firms as in the 1980s. The conclusion is clear: new venture formation did not collapse in the region during the restructuring.

Even more impressive, lots of firms managed solid growth during this turbulent period. An impressive 4% of the firms that were in business in 1989 employed enough extra people by 1991 to outgrow the size category they were in in 1989. This compares well with the 16% over 10 years experienced in the 1980s. This performance is consistent across all size categories, but the best improvement against the levels of the 1980s was in firms employing fewer than five people.

The flip side of this coin - the firms that downsized without going out of business - was not a pretty picture in 1989-91. Of the total number of firms in 1989, 4% were sliders in the following two years, compared to 3% for the whole decade to 1989, as Table 2.1 shows.

The impact was worst in the largest firms, where 7% shed enough labour in two years to drop them into lower size categories, compared to 4% for the whole of the 1980s. But the effect of the restructuring was felt in smaller firms too. About a fifth of all firms with 5 to 99 employees dropped at least one size category in the two years to 1991. In the previous decade, only about 13% of firms this size suffered the same fate.

The impact of this churning on employment levels is dramatic, as Table 2.2 shows. In 1989-91, while total employment dropped 11,200, the "growers" (who jumped at least one size category up) contributed 31,700 new jobs, and startups created 56,200. In 1979-89, the growers contributed only a third of the jobs contributed by startups.

The sliders (firms that shed enough labour to drop at least one size category down), lost more jobs than the growers, however, and the firms that stayed in the same category over the two years managed to drop more than 8,000 people

from their payrolls. In the previous decade, the unchanged firms were significant contributors to job creation and the sliders lost less than half the jobs gained by the growers.

Finally, the exits (firms that ceased to do business during the two-year period) lost almost as many jobs as the startups created. In the more healthy environment of the 1980s, jobs lost to exits accounted for about two-thirds of the jobs gained from startups (see *State of Small Business and Entrepreneurship in Atlantic Canada - 1992*).

**Table 2.2 <sup>4</sup>**  
**Where the action is - and isn't**

Distribution of firms by status (what happened to them during the period) and the corresponding net gains and losses in employment. Atlantic Canada, 1989-91

Status	Firms in each status		Net change in jobs	
	Number	As a % of 1989 firms	Number	As a % of total loss*
Exits	27,988	32%	(55,300)	-473%
Unchanged	51,355	59%	(8,300)	-71%
Growers	3,423	4%	31,700	271%
Sliders	3,893	4%	(36,000)	-308%
1989 firms	86,556	100%	(67,900)	-580%
Entrants	30,063	35%	56,200	480%
Net change	2,075	2%	(11,700)	-100%

\* Notes: The employment loss is expressed as a negative percentage to aid understanding if not mathematical precision.

The net change in firms is entrants less exits. The net change in employment is the overall change in jobs in the Atlantic region.

See Notes to Table 2.1 for an explanation of Growers and Sliders.

When these changes in employment are examined for each status, the contribution of growth-oriented firms comes into focus. The growers among firms with fewer than five

<sup>4</sup> Source; *Growing and Declining Business Report* Atlantic Canada, 1989-91. Prepared by Statistics Canada, 1993.

employees, contributed 79 new jobs for every 100 lost in the economy as a whole, as Table 2.3 shows.

**Table 2.3<sup>5</sup>**  
**Employment impact of firms in transition**

Share of total change in employment, by firm size and status. Atlantic Canada, 1989-91

Status	Employment change (%)* by size of firm (number of employees)						
	<5	5-19	20-49	50-99	100-499	500+	Total
Exits	(148)	(103)	(61)	(35)	(61)	(65)	(473)
Unchanged	(14)	(5)	8	(2)	(82)	24	(71)
Growers	79	71	64	35	22	0	271
Sliders	0	(80)	(70)	(53)	(74)	(30)	(308)
1989 firms	(83)	(118)	(59)	(55)	(195)	(71)	(580)
Entrants	194	95	45	34	53	59	480
Net change	111	(23)	(14)	(21)	(142)	(12)	(100)

\* Notes: Percentages are shown as negative for negative employment change and positive for employment growth.

See Notes to Table 2.1 for definitions of Growers and Sliders.

New entrants in the same size category contributed another 194 new jobs, making the growth firms in the smallest category responsible for 273 new jobs for every 100 lost in the regional economy as a whole. Firms with 5 to 19 employees that were growers or entrants contributed between them 166 jobs for every 100 lost regionally. All other categories made a much smaller contribution.

The two smallest size categories also lost the most jobs from exits - 148 and 103 respectively. Overall, however, the smallest firms made the only positive contribution to job creation, with 111 new jobs for every 100 lost. Next best was the largest category of organizations employing more than 500 people. These firms lost 12 jobs for every 100 lost, largely because the large firms that remained "unchanged" added 24 people to their payrolls for every 100 lost in the region. This

<sup>5</sup> Source: *Growing and Declining Business Report*. Prepared by Statistics Canada, 1993.

is, of course, a reflection of the governments, which did not downsize the way the private sector did. In mid-sized firms employing 100 to 499 people (which contain a significant number of Atlantic-based firms), the employment loss from firms that remained in the same category was much worse, at 82 for every 100 lost regionally.

To find the firms that made the biggest difference to employment, one way or the other, a special analysis was made of the firms that changed employment levels the most. As Table 2.4 shows, only 0.2% of all Atlantic firms in 1989 grew so much that they jumped two size categories by 1991, but they created 6,200 jobs.

*Table 2.4<sup>6</sup>*  
***The big impact of a few growers and sliders***

Number of firms that grew or declined into a size category two or more above or below the one they were in in 1989 - and the jobs that their growth/decline created/lost. Atlantic Canada, 1989-91.

Firm size (number of employees)	Firms that jumped two or more size categories		
	Number of firms	% of all firms in 1989	Jobs gained/lost
<b>Growers</b>			
<5	45	0.071%	1,500
5-19	34	0.054%	3,200
20-49	37	0.058%	1,900
50-99	2	0.003%	0,100
Total	118	0.186%	6,700
<b>Sliders</b>			
20-49	65	0.103%	(1,400)
50-99	48	0.076%	(2,500)
100-499	71	0.112%	(4,800)
500+	7	0.011%	(0,300)
Total	191	0.302%	(9,000)

Notes: See Notes to Table 2.1 for definitions of Growers and Sliders.

<sup>6</sup> Source: *Growing and Declining Business Report*, Atlantic Canada, 1989/91. Prepared by Statistics Canada, 1993

Almost half of the jobs created (3,200 of 6,700) by these high-growth firms came from a mere 34 firms with 5 to 19 employees each in 1989. These firms had started with a total of 100 employees all told in 1989, so their growth was spectacular.

The big losers were almost as spectacular. Only 0.3% of all the firms that existed in 1989 shed enough labour to drop down two or more size categories, but they lost 9,000 jobs in the process - close to the amount lost by all firms in the region as a whole. The biggest losers here were the 71 firms that started out with 100 to 499 employees each: they employed 5,700 people in 1989, but lost 4,800 to end up with 900 between them. It's not as bad as an outright failure, but it hurts.

### ***Strategies for Success***

In an effort to differentiate more successful growth-oriented small and medium-sized enterprises (SMEs) from less successful ones, Statistics Canada initiated a research project led by John Baldwin<sup>7</sup>. Their findings reinforce the fact that there are things that both entrepreneurs and outside agencies can do to bring about success, and that the traditional view of a serendipitous, "luck of the draw" process of growth for small and medium-sized businesses is not correct. In fact, Baldwin et al. point out that clear strategies are critical to success for growing small and medium sized enterprises (GSMEs).

This information is of critical importance for entrepreneurs in the region. Here is the beginning of a blueprint for success. This chapter will look at the findings of this national study and describe the differences in strategy and activity between higher and lower growth firms. While the Atlantic region is going through the structural adjustments which are affecting all of Canada - and is having to deal with additional

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<sup>7</sup> *Strategies for Success: A Profile of Growing Small and Medium-sized Enterprises (GSMEs) in Canada*, prepared by Statistics Canada for the Firm Strategy and Adaptation Project, 1993.

pressures such as the closure of the fishery - one constant applies: jobs are being created by growth-oriented businesses, and economic activity is being driven by new, and growing, small and medium sized businesses.

Downsizing and pressures on labour costs are squeezing jobs out of larger organizations, both in the private and public sector, and more and more interest is being focused on entrepreneurial activity. The Atlantic region has a long history of entrepreneurial endeavour. Government agencies are seeking to find the levers which will facilitate and stimulate enterprise creation, enterprise success and enterprise growth. Based on rigorous and careful research, the rest of this chapter will highlight what we know to be the factors which lead to success for small and medium-sized companies.

### ***What Allows Small Businesses to Grow?***

As Baldwin comments, "Small firms .. form the dynamic back bone of the modern economy. Nevertheless small firms are regarded as being vulnerable and subject to the vicissitudes of the business environment. Large firms are considered to have the ability to ride out difficult economic times and even to be able to influence the environment that affects them. Small firms are regarded as producers possessing certain innate advantages that are offset by critical failings."<sup>8</sup>

There are many accepted beliefs about small businesses but these are often not based in fact, and can be misleading and inaccurate. The facts of life in SMEs in the 1990's differ quite sharply from what have been held as truisms. As more attention is being focused on the small business sector, and programs to stimulate entrepreneurship and the growth and development of small business are being initiated at all levels of government, it is increasingly important to understand the factors which are associated with success. Programs to assist SMEs have focused on a variety of areas such as the acquisi-

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<sup>8</sup> Source: *Strategies for Success*

tion of capital, management skills, labour skills, research and development, information networks, and so on. Given scarce resources, an important question is which programs are most useful and effective in helping SMEs succeed and grow? These are the areas in which government is likely to receive the greatest return for its investment of time, energy and resources in the future.

To answer this question, the StatsCan research has examined three aspects of SMEs - their strategies, their activities, and their characteristics. Strategic decisions are those which affect the entire focus and aim of the business - creating innovative products or services, strong customer focus, moving into new markets, emphasising R&D, building labour skills, etc. Activities refer to the actions taken to implement strategies - acquiring new technology to create products and services, training, financing, marketing activities, etc. And an enterprise's characteristics include such factors as its structure, the demographics of its markets, and the sector in which it competes.

The rationale for looking at these three aspects of SMEs is that while enterprises may state that they are following certain strategies, it is important to examine their activities to determine the degree to which they are, or are not, in fact carrying out, and achieving, their stated intentions. To some degree, there is a halo effect at all levels of business endeavour, which encourages managers to assert their intentions to implement various strategies. But the reality of day-to-day pressures has a tendency to blur this strategic focus in favour of a focus on operational issues. Therefore, research which examines both stated intentions and follow-up activities represents a reality check which allows policy makers to focus on providing assistance where it is most useful.

## **The General Profile of GSMEs**

The StatsCan research is based on responses from 1,480 firms spread across the country, including 200 from Atlantic Canada. Table 2.5 shows a breakdown of the number of companies responding in 17 industry sectors by province. To be eligible for inclusion in the study, small and medium-sized firms were defined as ones with fewer than 500 employees and less than \$100 million of assets in 1984, with demonstrated growth in sales, employment, and assets between 1984 and 1989.

**Table 2.5<sup>9</sup>**  
**Survey Sample**

Distribution by industry and region of the study sample and of the responses received

Industry	Atlantic	Quebec	Ontario	Prairies	B.C. /North	Total
<b>Questionnaires sent</b>						
Accommodation/Food	11	8	23	4	11	57
Agriculture	3	4	6	2	4	19
Business Services	19	28	91	37	34	209
Communications	4	1	6	3	0	14
Construction	45	41	93	28	31	238
Education	2	0	3	2	1	8
Finance	5	16	20	4	13	58
Fishing/trapping	7	1	2	0	10	20
Health	2	5	8	7	3	25
Forestry/Logging	1	4	2	4	7	18
Manufacturing	42	161	259	56	77	595
Mining/Oil	3	3	4	10	3	23
Other services	22	31	56	20	23	152
Real Estate	18	12	54	6	20	110
Retail Trade	39	63	100	33	31	266
Transportation	13	11	21	14	12	71
Wholesale Trade	33	70	109	28	34	274
Total	269	459	857	258	314	2,157

<sup>9</sup> Source: *Strategies for Success: A Profile of Growing Small and Medium-sized Enterprises (GSMEs) in Canada*, prepared by Statistics Canada, 1993

Industry	Atlantic	Quebec	Ontario	Prairies	B.C. /North	Total
Valid responses received						
Accommodation/Food	10	6	13	1	5	35
Agriculture	2	2	3	0	3	10
Business Services	13	17	64	27	22	143
Communications	3	1	2	2	0	8
Construction	31	27	65	19	23	165
Education	2	0	3	2	1	8
Finance	2	10	12	5	8	37
Fishing/trapping	6	0	2	0	3	11
Health	2	3	4	5	2	16
Forestry/logging	0	3	1	2	3	9
Manufacturing	33	111	181	48	50	423
Mining/Oil	2	1	3	7	1	14
Other services	17	23	39	14	19	112
Real Estate	9	8	33	2	14	66
Retail Trade	30	44	71	25	18	188
Transportation	11	5	14	12	7	49
Wholesale Trade	27	45	74	22	18	186
Total	200	306	584	193	197	1,480

One-quarter of all firms surveyed nationally were from the manufacturing sector and only 10% of the sample was drawn from the construction sector. Chartered banks, all public institutions (educational and hospitals) were excluded. Average 1989 sales of a responding firm were \$6.6 million, average assets were \$4.7 million, and average employment per firm was 44 people.

Results indicate that 86% of GSMEs are independent enterprises while 14% have an affiliation with a parent firm (of which 71% are Canadian and 29% foreign). Independent firms and those with Canadian parents make up 96% of the StatsCan sample. Owner-operators run 84% of the GSMEs, with only 16% of the enterprises having outside owners.

Growth in small and medium-sized firms comes essentially through internal growth activity, as opposed to mergers,

joint ventures or other types of strategic alliances. In the period 1989 to 1991, only 7.4% of the sample group were involved in mergers and 7.6% in strategic alliances of one kind or another.

Respondents were asked to indicate what factors made a difference in their growth. The results are shown in Table 2.6.

**Table 2.6<sup>10</sup>**  
***Importance of key factors in the firms' growth***

Average rankings by respondents of the contribution made to the growth of their firms by specified factors (on a scale of 1 to 5, with 1 being not important, 2 slightly important, 3 important, 4 very important and 5 crucial)

Factors	Mean Value	Proportion responding with a ranking of 4 or 5
Management skills	3.3	55%
Skilled labour	2.9	43%
Marketing capability	2.9	43%
Access to markets	2.8	43%
Access to capital	2.7	33%
Cost of capital	2.7	33%
Ability to adopt technology	2.5	33%
R&D innovation capability	1.4	16%
Government assistance	1.4	14%

The management skills that GSMEs have developed and the skill levels of their workforces are seen as being as important to growth as are access to markets, capital and technology. This holds true across industries, despite the fact that industries tend to differ in terms of factors such as capital and labour intensity, the importance of technology, and so on. Breaking the sample into five industry sectors - manufacturing, construction, wholesale trade, retail trade, and business services - showed managerial skills occupying the top ranking and government assistance generally being rated last. The

<sup>10</sup> Source: *Strategies for Success*

consistency of rankings across industry sectors indicates that there is a common thrust for all SMEs which are growing. The routes to growth appear to be consistent (see Table 2.7).

**Table 2.7 <sup>11</sup>**  
***Importance of growth factors by industry sector***

Average rankings by respondents, by industry sector, of the contribution made to the growth of their firms by specified factors (on a scale of 1 to 5, with 1 being not important, 2 slightly important, 3 important, 4 very important and 5 crucial)

<b>Factors</b>	<b>Manufactur- ing</b>	<b>Construc- tion</b>	<b>Wholesale Trade</b>	<b>Retail Trade</b>	<b>Business Services</b>
Management skills	3.25	3.37	3.1	3.51	3.49
Marketing capability	2.95	2.09	2.08	2.92	3.06
Access to Markets	2.95	2.47	3.06	2.43	2.71
Skilled labour	2.94	3.29	2.54	2.98	3.12
Cost of capital	2.83	2.77	2.6	2.57	2.29
Access to capital	2.8	2.76	2.53	2.55	2.48
Technology adoption	2.76	2.53	2.34	2.15	2.9
R&D capability	2.03	1.05	1.28	0.77	1.7
Government assistance	1.83	0.94	1.15	1.2	1.24

### ***What Makes GSMEs Competitive?***

While there is a common thrust for GSMEs - making sure that they have appropriate management skills, skilled labour, access to markets and capital, etc. - on what aspects of business do growing businesses focus in order to differentiate themselves from their main competitors? GSMEs were asked to rate themselves vis-à-vis their competitors on ten criteria. Using these criteria, Table 2.8 sheds light on where firms see their strengths in relationship to their competition. Emphasis on achieving superiority in these areas is a factor in allowing these firms to grow and succeed over their competitors.

<sup>11</sup> Source: *Strategies for Success*

**Table 2.8 <sup>12</sup>**  
**Perceived Superiority over Competitors**

Self-assessment of respondents on their strengths in certain attributes relative to their competitors (on a 6-point scale, with 0 being not applicable, 1 much worse than the competition, 2 somewhat worse, 3 about the same, 4 somewhat better and 5 much better)

Factors	Mean Value	Proportion ranking 4 or 5
Customer service	4	74%
Flexibility in response to customer needs	3.9	72%
Quality of products	3.9	66%
Employee skills	3.5	51%
Range of products	3.2	45%
Price advantage	3.1	28%
New product frequency	2.6	32%
Labour climate	2.6	31%
Production costs	2.6	26%
Spending on R&D	1.5	12%

Clearly the most important perceived elements for growing enterprises vis-à-vis competitors are customer service, flexibility in responding to customer needs, and the quality of product or service. Growing enterprises have caught the quality/service bug. It's an infection that works in reverse; not catching it appears to be terminal. Price is not an area where a firm can hope to establish much difference from their competitors; hence, the emphasis on non-price competitive factors.

Next in priority is employee skills, followed by range of products/services and cost of products/services. In terms of competitive importance and leverage, the frequency of new product introduction, production costs and the labour climate are not seen as important differentiating factors, given that they only receive a mean score of 2.6, less than the mean res-

<sup>12</sup> Source: *Strategies for Success*

ponse of 3.0 which indicates "about the same as competitors" in the rating scale.

Interestingly, only 12% of the sample see R&D spending as a key competitive element, and it receives a mean ranking of only 1.5. While R&D is important for growing enterprises, it takes a number of non-traditional forms for small and medium-sized firms, often focusing on acquiring existing technology or building on and adapting technology and processes. Not seeing R&D as a critical element in competing with other enterprises does not mean that it is not an element in the mix of a successful strategy for a GSME. Almost 55% of GSMEs indicate that they have introduced innovations, whether they be from parent firms, from various functional areas in the company, from observation of the industry, or from customers or suppliers. The rank order of sources of innovations for GSMEs is: first - customers; second - management; third - suppliers; and fourth - information gained in the marketplace from competitors. Production, government, R&D, and parent firms are seen as much less important as sources of innovation.

These priorities convey a strong picture of GSMEs first targeting and defining markets, and then harvesting them by concentrating on customer service, product quality, flexibility and responsiveness to customer needs through a range of products and services, skilled employees and competitive pricing.

### ***Where do GSMEs Allocate their Resources?***

The value which GSMEs place on growth factors is only a general, and rather rough, indication of the activities to which they actually give priority. One measure of the importance accorded an area in terms of its perceived competitive value is the percentage of investment spending allocated to it. The StatsCan research study benchmarked the self-assessment of the importance of growth factors against hard data on activi-

ties and expenditures in five areas - marketing, human resources, financing, innovativeness and exporting.

- *Marketing* was ranked second, after management, in terms of perceived importance to GSMEs. Data on investment expenditures by GSMEs in marketing, training, R&D, machinery, and buildings over the years 1989, 1990 and 1991 supports this assessment, as investment in marketing by GSMEs (23% of total investment expenditures) ranks second only to investment in machinery (about 40% of total), and is greater than investment in R&D (about 17%), training (about 8%), or buildings (about 5%).
- *Human resources* (under the heading of Skilled Labour) was perceived as being of equal importance to marketing. One element of human resource policy which can be measured is expenditure on training. Gross dollar expenditures are not particularly revealing because they vary with the size of the enterprise; nor are percentages of training expenditures to sales or payroll because they tend to be small and therefore present the impression that training is seen as relatively inconsequential. A more meaningful measure of the importance given to training is its percentage of the total firm's investment, relative to investment in machinery, buildings, R&D, marketing, etc. The average share of total investment expenditure devoted by GSMEs to training was 7.4% in 1989, 8.0% in 1990, and 9.0% in 1991.

While training is often thought to be under-emphasised in small enterprises, 52% of GSMEs indicate that they give their employees some training, either formal (36%) or informal (34%); the latter is largely on-the-job training. Size is a factor which influences the amount of training. While 46% of firms of less than 50 employees report giving employees training, 78% of enterprises with between 200 and 500 employees engage in training. Informal training is more prevalent than formal training, probably because it is highly job specific and is seen as having a more tangible return on investment.

Congruent with the emphasis on harvesting business from well defined target markets is the fact that GSMEs have a smaller percentage of managers and executives than Canadian firms in general, and have a higher proportion of sales and marketing staff. GSMEs have a flatter structure which enables them to be more flexible, to respond to customer needs more rapidly and effectively and to exploit market opportunities.

- *Financing.* Looking at the capital structure of GSMEs, the StatsCan study was able to draw two main conclusions:

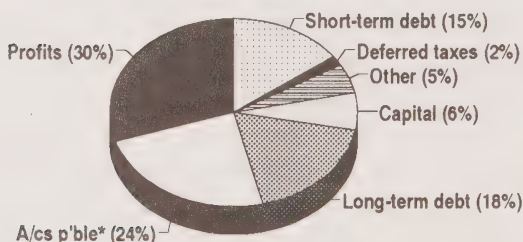
(1) The emphasis is on long-term rather than short-term capital, with approximately 55% of liabilities consisting of shareholder capital stock, retained earnings (profits) and long-term debt (see Chart 2.1).

**Chart 2.1<sup>13</sup>**  
***The Distribution of Liabilities***

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Capital structure of respondent GSMEs

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\* Note: A/cs p'ble is accounts payable

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<sup>13</sup> Source: *Strategies for Success*

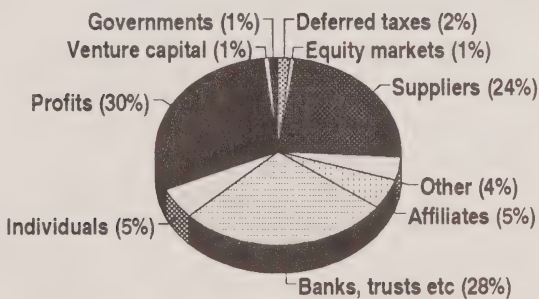
(2) GSMEs make substantial use of internally generated funds, with equity representing two-thirds of long-term liabilities; only one-third is comprised of debt. Retained earnings account for 80% of equity. Quite clearly, the general picture of the small firm is not the same for GSMEs. While the former are seen to rely on short-term borrowing and are often undercapitalized, GSMEs demonstrate that a sounder financial structure is associated with growth. In terms of financing, the three main sources are retained profits (29.9%), financial institutions (27.7%) and suppliers (23.7%) (see Chart 2.2). Only 1.2% is provided through public equity or venture capital markets.

**Chart 2.2<sup>14</sup>**  
**Sources of Financing**

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Source of funds for respondent GSMEs

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- *Innovation*, like training, is difficult to measure in SMEs when one uses the standard ratios and percentages which are normally applied to large organizations. However, one
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<sup>14</sup> Source: *Strategies for Success*

can look at the issue from a variety of angles and begin to draw some useful conclusions. To begin with, the StatsCan study examined the incidence of R&D in GSMEs and found that 9.3% of the firms in the sample reported employment in an R&D unit. Corroborating this figure is the fact that about 12% of the GSMEs reported investment in either product or process innovations. And finally, 30% of the sampled firms indicated that an R&D capability was of some importance in explaining their growth.

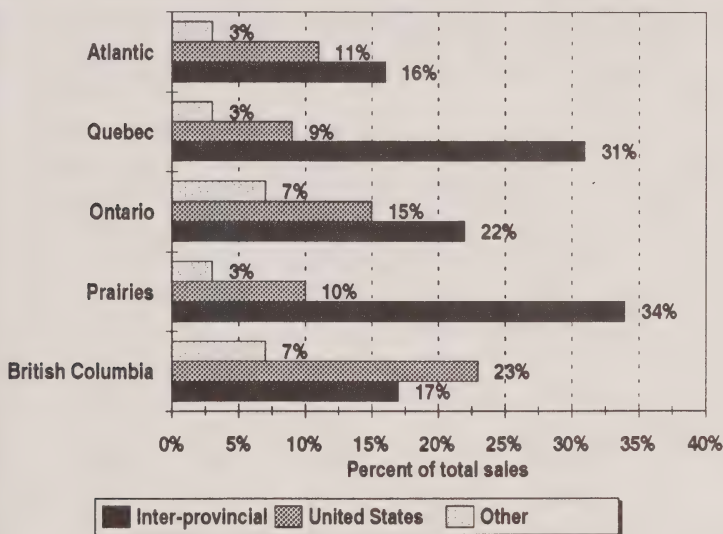
The proportion of investment in both product and process innovation of GSMEs to total investment in 1989 increased from 11.9% and 3.2% to 14.6% and 4.1% in 1991. These are substantial gains, once again indicating the importance of innovation to GSMEs. (It is interesting to note that in terms of expenditures, GSMEs place four times the emphasis on product innovation that they do on process innovation.)

Perhaps the most widely used measure of R&D intensity is the ratio of R&D to sales. The average level of R&D expenditure to sales for GSMEs performing R&D was 3.1% in 1991. However, using R&D expenditures as a proxy for innovativeness in GSMEs tends to give an inaccurate picture because innovation comes from many other sources in the company besides R&D. When GSMEs were asked to evaluate their sources of innovation, they listed internal sources such as management, marketing, production and the R&D unit, and external sources such as customers, suppliers and competitors. That innovation is more pervasive among GSMEs than the R&D figures alone indicate is confirmed by the fact that 55% of the firms sampled noted they had introduced innovations from one or more of these internal or external sources. The rank order of sources for innovations is: customers, management, suppliers, marketing, competitors, production, government, and the R&D unit. This suggests that GSMEs are demand-driven and top-down firms.

- **Exporting.** GSMEs also tend to be outward oriented - i.e. they sell to markets outside their own region. Principally this means that they sell to other regions and other provinces (Chart 2.3).

**Chart 2.3<sup>15</sup>**  
**Where GSMEs Sell their Products**

Geographic distribution of sales outside their home province for GSMEs in the manufacturing sector



However, GSMEs sell a higher percentage of their production within their own province and export less to other countries than do manufacturing firms in general in Canada. This is even more true for the Atlantic Canadian firms in the sample where only 14% of total sales are sold outside the home market and their GSMEs engage in less interprovincial trade (Chart 2.3). The model for success (in some way mir-

<sup>15</sup> Source: *Strategies for Success*

roring the Japanese example of growth) appears to be to establish a strong base in the home market and then market interprovincially. It may be hypothesised that the risk of foreign exchange rates and the additional administrative requirements for exporting to other countries act as a deterrent to GSMEs. However, overall results also reveal that GSMEs are active participants in international trade.

**Table 2.9<sup>16</sup>**  
***Inter-regional Trade in the Manufacturing Sector***

Percentage distribution of sales outside the home region, by Canadian regions and the world, for each region of origin. Shown separately for GSMEs and for all manufacturing firms.

Destination		Origin				
		Atlantic	Quebec	Ontario	Prairies	B.C.
Atlantic	GSMEs	70.70%	4.02%	2.92%	0.45%	0.72%
	All firms	42.60%	4.09%	3.16%	0.61%	0.30%
Quebec	GSMEs	4.84%	56.8%	9.54%	0.71%	1.98%
	All Firms	8.70%	43.9%	8.8%	4.1%	1.66%
Ontario	GSMEs	10.30%	23.13%	55.6%	25.24%	5.39%
	All firms	9.00%	17.6%	42.5%	8.34%	4.54%
Prairies	GSMEs	0.38%	2.08%	5.61%	52.3%	9.08%
	All firms	1.80%	4.39%	6.72%	54.9%	7.79%
B.C.	GSMEs	0.14%	1.57%	4.36%	7.88%	52.4%
	All firms	0.60%	2.66%	3.24%	6.63%	37.2%
World	GSMEs	13.6%	12.4%	22.0%	13.5%	30.4%
	All firms	37.20%	27.3%	35.5%	14.1%	48.5%

### ***Strategies of Growing Small and Mid-sized Enterprises***

GSME strategies focus on six major areas: management, marketing, human resources, technology, production efficiency and government assistance. The study of GSMEs conducted by Baldwin et. al. investigated how the firms put each of

<sup>16</sup> Source: *Strategies for Success*

these strategic thrusts into practice. In essence they asked GSMEs to describe what techniques and approaches they used to apply their strategies, requiring the firms to rank alternatives on a six-point scale, from 0 to 5, with 0 indicating non-applicability.

*Management practices.* In examining how management practices and techniques are used, firms were presented with the following list:

- ✓ Improving management incentives through compensation schemes
- ✓ Innovative organizational structures
- ✓ Just-in-time inventory control
- ✓ Process control
- ✓ Total quality management

Total quality management (TQM) is the most valued management strategy, with a mean score of 3.4. It is followed by the use of innovative organizational structures with a mean score of 2.6, the use of incentive schemes (2.4), just-in-time inventory systems (JIT)(2.4), and process control (2.3).

GSMEs see themselves as stressing TQM while regarding the way they structure their organizations and use various management techniques such as incentive schemes, JIT and process control, as further important elements in their growth and success.

*Marketing practices.* Marketing strategies are next in importance to GSMEs after management. In striving to beat their competitors, GSMEs focus on customer service, quality and flexibility. But as they market their products and services, how important is an emphasis on new products, new services and new markets ? The firms were asked to indicate the importance they attached to the following alternative marketing approaches:

- ✓ Selling existing products in present markets
- ✓ Introducing new products to present markets
- ✓ Introducing existing products in new markets
- ✓ Introducing new products in new markets

Each alternative on the list can be thought of as being a more "aggressive" marketing strategy than the prior one. And each successive strategy entails greater risk.

GSMEs, as noted earlier, focus first on establishing and maintaining a strong base in their traditional markets, and then move into new areas. The mean score for selling existing products in present markets is 3.6, indicating that it is the principal marketing strategy for GSMEs. However, going into new markets with existing products, or bringing new products to its existing markets have a mean score of 3.1, not far behind. The highest risk strategy is to take a new product and try to match it with a new and untried market. Understanding the market is important in any product introduction. GSMEs show a strong customer focus: much of their marketing effort, in terms of new product introduction, is initiated from information gleaned from customers about their needs. An overly aggressive marketing strategy which involves taking new products to unfamiliar markets results in too much risk for a small or medium-sized enterprise; the penalties of failure are disproportionately high.

*Human resources strategy.* GSMEs rank human resources strategy third in importance, after management and marketing. This strategy can be operationalized in a variety of ways. GSMEs were asked to rate the importance they placed on

- ✓ Continuous staff training
- ✓ Innovative compensation packages
- ✓ General motivation techniques

The use of compensation packages received the lowest rating. HR strategies in GSMEs focus first on motivation and training, approaches which enhance the abilities and potential of people. These findings support the earlier evidence that having skilled staff is an important element in the success of small and medium-sized enterprises. GSMEs need skilled people and they recognize the importance of working to increase these skills.

Entrepreneurs are motivated to start and build their businesses by a wide range of factors, of which money is relatively low on the list. Much of the success of small business is due to the drive and enthusiasm of the owners/managers, so it is not surprising that they see motivating the people in their enterprises as being of principal importance - imbuing staff with the energy and excitement which drives them. Training is a logical corollary. And perhaps because of their own view of the business - it provides them with challenge, excitement, and achievement, with financial rewards almost incidentally following as a result - innovation compensation packages are seen as less important.

*Technology strategy.* As a competitive tool, technology is increasingly important to all organizations. GSMEs recognize technology as an element in the battle to be competitive, however there are a number of ways in which technology can be acquired and integrated into the operations of a firm. GSMEs were asked to indicate how important the following approaches were to them in terms of greater competitiveness:

- ✓ Improving their own existing technology
- ✓ Utilizing technology acquired from others
- ✓ Refining and developing the technology acquired from others
- ✓ Developing new technology

Much like alternative marketing strategies, each of these implies a different level of risk. Clearly, developing new technology is the riskiest strategic alternative, while adopting technology already being used by others is the least risky and least aggressive strategy.

The preferred strategy of GSMEs is to develop and improve their current existing technology. However, developing new technology is seen as more critical than either simply acquiring it from others or attempting to improve on others' technology. Much like the strategic approach taken to marketing, GSMEs first build on their strengths and then move into more aggressive areas.

*Production strategies.* Those firms in the sample which manufactured goods were asked to indicate how they approached the input side of the productivity equation. Productivity increases as outputs increase for a given amount of input. Four approaches to handling inputs were examined:

- ✓ Reducing labour costs
- ✓ Reducing energy costs
- ✓ A focus on more efficient utilization of existing materials
- ✓ A shift to using new materials

Labour costs receive significantly greater attention than the other strategies for increasing productivity. The next most significant emphasis was seen to be on achieving greater efficiency through using existing materials better and reducing energy costs. The use of new materials, while seen as crucial to a small number of GSMEs, is generally not seen as the most important production strategy.

### ***Using Government Services as a Strategy for Success***

As discussed above, government programs rank well down the list of factors which GSMEs feel contribute to success. They were asked to indicate the importance they attached to the following government programs and services which they had actually used - i.e. to indicate their experience of the usefulness of these programs and services:

- ✓ R&D tax incentives
- ✓ Government procurement
- ✓ Training programs
- ✓ Industrial support
- ✓ Export incentives
- ✓ Information services

The actual utilization of government programs and services by GSMEs is relatively low, with 56% of the firms surveyed not indicating any use of any of the programs listed. The remaining 44% indicated that they had utilized at least one program or service, but most of these also indicated that

at least one of these programs or services was "not applicable" to them, and therefore presumably not used. Only 11% gave a positive ranking (not a zero) to all six of the alternatives listed.

When the importance of government programs to GSMEs is compared by regions in Canada, some differences appear (Table 2.10). In Atlantic Canada, training, market information, government procurement, and industrial support are all seen as being more important than in Canada overall. But R&D tax incentives and export incentives are seen as less useful in the Atlantic region than in the country as a whole. Market information is seen as most important in Atlantic Canada and least important in Quebec, and government procurement assistance is rated most useful by Atlantic Canada GSMEs.

*Table 2.10<sup>17</sup>*

***Importance of Government Programs by Region***

Average ranking by respondents of the importance of government programs and services (on a 6-point scale, with 0 being not applicable, 1 being not important, 2 slightly important, 3 important, 4 very important and 5 crucial)

Program	Atlantic	Quebec	Ontario	Prairies	B.C.	Canada
Training	1.85	1.62	1.86	1.94	1.7	1.8
Market information	1.87	1.31	1.54	1.43	1.57	1.53
Government procurement	1.9	1.47	1.51	1.56	1.6	1.57
Industrial support	1.68	1.58	1.42	1.66	1.48	1.52
R&D tax incentives	0.91	1.46	1.14	1.3	1.1	1.19
Export incentives	1.09	1.28	1.17	1.1	1.1	1.16

<sup>17</sup> Source: *Strategies for Success: A Profile of Growing Small and Medium-Sized Enterprises (GSMEs) in Canada*, prepared by Statistics Canada, 1993

## ***Conclusions About Strategy for Developing GSMEs***

An important question for government is what policies contribute to the success of growing small businesses. Do training programs aid the process? Are innovative strategies the key? What is the importance of capital structure? The answers appear to be that all of these things are seen as important by GSMEs. When the issue of resource allocation is raised, the real question becomes what is the relative importance of all of these factors - which has the greatest effect?

To determine the answer to this question, Baldwin et al. examined which activities and programs GSMEs actually stressed (as opposed to what they said they felt were most important). They looked at the differences between the policies and practices of more successful and less successful growing firms. The result is a picture of those firms which contribute to growth in the economy and those which do so to a lesser extent - those which might be termed as winners and those which are mediocre performers. Both categories of firms place demands on public funds and it is important for government to be able to determine where its investment has the greatest potential return.

While so far in this chapter we have discussed the characteristics of successful growth firms, it is also very important to be able to determine what makes some more successful than others. Baldwin compared the scores of the growth factors associated with developmental strategies, competitiveness assessment strategies, government programs, and innovative approaches for the highest growth GSMEs and compared these to the factors associated with lower growth GSMEs, to determine the factors which differentiated the two groups. The three factors which differentiated most were: R&D capability, access to markets, and technological ability.

These three factors are all related to innovative capability; they all focus on developing something new, different and unique. They are means by which higher growth SMEs

attempt to differentiate themselves from their competitors, either in terms of product or service or markets, price, availability, etc. R&D is concerned with developing new products and services; this tends to be related to technological ability which allows the firm to produce the products and services more efficiently; and a creative approach to accessing markets in turn facilitates their sale. In short, then, the most successful GSMEs are the most innovative ones, in a broad sense. Competition in all sectors of the economy is intense. An innovative approach is required to not only keep pace with the changing market place but to take advantage of it. The more successful GSMEs, through their focus on innovation, tend to be more in touch with the changing pattern of business.

One other factor which clearly discriminates between the higher and lower growth firms is their use of government assistance and programs. Clearly government programs provide most leverage for those firms which are innovative in their outlook and tend to use these programs to enhance their ability to do things differently - to access new markets, to gain help in R&D, and to develop technological ability. Successful firms use export incentives, R&D tax incentives, market information services and industrial support. Training seems to be something which needs to be tailored to the needs of the firm; reliance on government programs either takes the firm's eye off the ball or somehow fails to meet specific needs at a specific time.

Of real interest is the fact that the two factors which GSMEs rated as being most important to their success - management and marketing - do not provide any significant degree of differentiation between more and less successful businesses. This introduces an important concept for small businesses: recognition of what can be thought of as foundation factors and what can be thought of as leverage factors.

Foundation factors are those areas where focus and attainment of a significant level of skill is essential to sustained success. Leverage factors are those areas where focus

and development is able to move a business out in front of the pack.

Looking in more detail at how developmental strategies relate to growth in both the areas of marketing and technology strategies, it can be seen that more aggressive strategies make a positive difference. For instance, a strategy of focusing on new products in new markets has the highest relationship with growth while focusing on selling existing products in existing markets has the weakest discriminating power. Strategies of developing new technology, improving existing technology and refining the technology of others are clearly related with success, while using others' technology does not bear any significant relationship to being among the higher growth businesses. Once again, the themes of an emphasis on innovation, and a proactive approach to the challenges of business come through.

The same picture appears with regard to production strategies, where the most successful firms place more emphasis on the use of new materials, using existing materials better etc. An innovative frame of mind is once again the key.

The concept of foundation and leverage attributes can also be seen in areas such as human resource strategy where motivation and training are foundation strategies - if you don't focus on them you won't succeed - and innovative compensation packages are leverage strategies - they can build on success. The same is true with regard to management practices. Total Quality Management is an essential for success - not doing it can be fatal. Just-in-time inventory systems and process control, however, are leverage factors.

Innovation is leveraged by firms which take an inward focus - emphasising results developed in their own R&D or production units - rather than an outward focus - copying from competitors or relying on suppliers. So while they say that they rely on outward sources for innovation, more successful GSMEs tend to generate innovative ideas within their organizations.

Capital structure and capital costs have traditionally been seen as stumbling blocks for small businesses. The profile of the more successful GSMEs shows that they approach the problem of capital cost differently. They tend to rely less on retained earnings and accounts payable and utilize short- and long-term debt in their balance sheets. Once again, while retained earnings are useful and form a foundation for the capital structure of a firm, they are not sufficient to enable market share growth or profitability growth and leverage is only obtained through moving to alternate sources of finance.

In conclusion, more successful GSMEs have a clear and coherent management strategy, tend to take an innovative and sometimes more aggressive approach to R&D, marketing, production, the adoption of technology, and managing their human resources. They have caught the total quality management virus and use innovative techniques such as JIT and process controls. They train their people, focusing on the specific needs of their staff and avoiding blanket training and development which doesn't have a clear connection with the work at hand. They use long-term capital to finance their growth strategies. And they are adept at using certain government programs. One of the factors which seems to distinguish growth firms is their ability to seek out specific government programs and assistance and to utilize them to the best advantage. They are proactive.



## Chapter 3

# ***BUSINESS COUNSELLING***

**T**he previous chapter examined some of the major determinants for growth and success of small and medium-sized enterprises (SMEs) in terms of their strategies, actions and characteristics. This chapter takes a step back and begins to look at the issue of how entrepreneurs and small businesses acquire and enhance the skills, knowledge and expertise they require to begin their journey, to prosper as they continue through the maze of risks and opportunities, and to make the transition to medium-sized entities.

The critical role of new and small business in the growth of the economy has led government and other agencies to provide services to aid in their development, especially during the pre-start-up and survival stages. These services are being provided through a variety of government departments, crown corporations, industrial and economic development commissions, university and community-based small business development centres, and other publicly-funded agencies. The kinds of services being provided include the promotion of entrepreneurship as an employment option, self-employment training, counselling of people in the early stages of venture development, the provision of advice and information, referral to other sources of assistance, assistance with development of business plans, financial assistance, and problem-solving for existing small firms. Advice on small business startups, operating problems, and strategies cover a wide number of topics, from preparing budgets and financing proposals, to market research, to tax planning, to hiring and firing, to production techniques and technology, and so on.

It is estimated that there may be upwards of three thousand people employed in these government departments and publicly funded agencies in the region, all somehow involved in the provision of services of this nature. As recognition of

the importance of local access to small business counselling services increases so does the number of agencies and services and the number of people who are employed to provide these services. Not all of these people engage in business counselling on a full time basis, but they do devote some significant proportion of their time to the process.

Yet little is known about the general make-up and characteristics of these service-providers. What is the demographic profile of a small business counsellor in the region? What kinds of educational backgrounds, relevant experience, and specific expertise do they have? Who are their clients and what services are they providing? How much of their time is spent on the counselling aspects of the job? What do they consider to be their main counselling strengths and where do they see the greatest need for professional development in order to enhance their knowledge, skills, and abilities in meeting the needs of their clients? As greater business and management sophistication is demanded of small business owners (because of technological advancements, global competition, etc.), counsellors must also be better prepared to provide the appropriate level and sophistication of counselling advice.

Mindful of the need to ensure that quality counselling services are being delivered to clients, and recognizing the importance of public accountability for this type of expenditure by government, in 1992, ACOA commissioned a study of this supply side of small business counselling<sup>18</sup>. Given the different mandates of the agencies, firms, departments and organizations which employ business counsellors, it is important to acquire a better understanding of their characteristics and professional development needs.

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<sup>18</sup> The tables in this chapter draw extensively from the *Survey of Persons with a Professional Interest or Vocation Associated with Small/Medium Size Business Counselling*, conducted by Business Resources, Inc., Corner Brook, Newfoundland for the Atlantic Canada Opportunities Agency.

## *The Study*

An extensive survey questionnaire was mailed to a population of eight hundred and four people employed in agencies or organizations which provide business support services to small businesses (the response rate was 31%). For the most part, professionals working in private sector management consulting firms or specialized government departments (e.g. National Research Council, Agriculture Canada) were excluded from the study. Private sector firms are generally not being paid to perform counselling services with government funds and both these firms and specialized agencies were assumed to be working with more mature small and medium-sized firms with more advanced consulting needs and the ability to pay market rates.

The study principally examined the "supply side" of the issue with a view to understanding the existing resource and identifying possible areas for future emphasis and concentration. It looks at the demand side of counselling, only as it is perceived by the small business counsellor community. In a complementary study, it would be useful to explore the client's view of the quality and extent of counselling services being provided. However, the major objectives of this study were to (1) determine the characteristics of professionals who provide some aspects of business counselling to the small business client, (2) gain a better understanding of the nature of the client relationship, (3) determine the type of counselling being provided, and (4) gain some insight about the counsellors' perceptions of their professional knowledge, experience and developmental needs.

The results need to be viewed as a general picture of some of the main elements of the supply side of small business counselling and advice in the region, rather than as a full factual representation of the state of small business counselling. They form an interesting and valuable platform for further research and investigation and are a major building block

in the increasingly dynamic and complex arena of support to small business and entrepreneurship.

### **Who Are the Counsellors?**

The distribution of respondents by organizational affiliation is presented in Table 3.1.

**Table 3.1<sup>19</sup>**  
**Where Do Respondents Work?**

Distribution of respondents by type of employer (survey conducted by ACOA of suppliers of business support services to small businesses)

Place of Work	% of respondents
Community Futures or Business Development Corporation	19%
Federal government department or agency	17%
Provincial government department or agency	17%
Community or regional development association	12%
Federal Business Development bank	9%
Private counselling firms	8%
Municipal office	4%

Within these organizations, respondents indicated they provided business advisory and counselling services (19% of responses), financial assistance (14%), self-employment or management development training (13%), marketing assistance (12%), technical support (9%), and export assistance (6%). Even smaller numbers reported accounting or book-keeping services, human resources management, employment generation or facilities management. The most prevalent service was in business advising and counselling.

<sup>19</sup> Source: *Survey of Persons ... Associated with Small-Medium Size Business Counselling*

## ***Fees Charged***

For the most part these organizations do not charge fees for their services (61%), only 17% always charge fees and 21% sometimes charge them. Less than 10% of these respondents provide small business services from a private sector base; much of the small business counselling in the region is provided as a public service to promote, encourage and aid small business and entrepreneurship.

## ***A Demographic Profile***

*Sex and Age.* Of the 204 respondents, 74% were male and 23% were female (3% did not indicate gender). Fifty-four percent of respondents were under forty years of age, with another 24% between forty-one and fifty. Thus almost three quarters of the respondents were under the age of fifty. Only 5% were under twenty-five and 22% were over fifty. The vast majority - approximately 80% - work as full time employees in their affiliated organizations.

Although the results suggest that small business counselling is still largely provided by males, the fact that roughly a quarter of the counsellors are female is a reflection of (1) the growing number of women with business experience and business-related education, and (2) the growing number of women-owned small businesses. It is not surprising that only 5% of the counsellors are under the age of twenty-five, since one of the criteria for a business counsellor centres on experience and education. The fact that only a fifth of business counsellors in the region are over the age of fifty may be a reflection of the growth of small business and small business counselling which has attracted many new entrants to the profession in recent years as demand has grown.

*Education and Background Experience.* The education level of professionals doing business counselling tends to be high,

with almost 80% having some university experience, or one or more degrees (63%). Fewer than 10% reported education levels below post-secondary. The vast majority have designations or degrees related to business, organization and administration - such as B.Comm., BBA, MBA, MPA, CA, CGA, FCA, etc. A small percentage have engineering degrees and professional engineering designations. Overall, their educational background matches the traditional picture of a business counsellor, and they possess a high level of formal qualifications. Their most common professional affiliations include Chambers of Commerce, Boards of Trade, provincial development associations, tourism associations, and economic development associations.

*Work Experience.* Past related work experience is another important dimension for small business counsellors. It is not only directly applicable, but also adds credibility to the counsellor. Counsellors who have owned their own small business (17%) or managed a small business (14%), account for 31% of survey respondents. Respondents who have had experience in a management position (17%), in the military, police or public service (12%), in a bank or trust company (9%), or who have taught either business administration or entrepreneurship (14%), account for roughly another two-thirds of the sample. All in all, the experience of some 83% of the respondents is directly applicable to small business practice. Many of the respondents indicated that they had experience in more than one of these areas, with the average counsellor indicating experience in two or more areas.

More than a third (38%) have had between four and ten years experience in the delivery of business counselling services; a quarter (24%) have had four to seven years of experience; and 14% between seven and ten years. *An additional 30% have been working in the field for in excess of ten years!*

If we relate years of experience in business counselling with the age distribution of respondents, the profiles show the following comparisons:

**Table 3.2<sup>20</sup>**  
**Age and experience**

Distribution of counsellors by age and experience			
Age	Distribution	Years experience	Distribution
Under 25	5%	Less than 1	5%
25 - 40	49%	1 - 3	23%
41 - 50	24%	4 - 7	24%
51 - 65	19%	7 - 10	14%
Over 65	3%	11 - 15	16%
		16 - 25	14%
		Over 25	4%

Small business counsellors in Atlantic Canada are mostly under 40 years old (two-thirds); in excess of one third of them have had more than four years of experience in the profession, with another large group having entered the profession in the last three years - a reflection of the growth of small business and entrepreneurial activity in the region. The number of new entrants to the profession (three years or less) is greatest in Newfoundland where more than 35% fall into this category, and next largest in New Brunswick, with 29%. This may reflect the surge of small business interest and activity in these two provinces. Prince Edward Island and Nova Scotia respectively have 17% and 19% of small business counsellors who have been in the profession three years or less.

<sup>20</sup> Source: *Survey of Persons ... Associated with Small-Medium Size Business Counselling*

## **Work Activities of Small Business Counsellors**

*How do respondents spend their time?* Survey respondents were asked to rank the five most significant work activities (on the basis of time consumed on these activities during a typical week). The highest ranked activity was responding to general enquiries with 16.8% of respondents choosing this as the one on which they spent the most time (Table 3.3) followed by business plan preparation (11.4%), evaluating funding proposals (9.8%), financial counselling (9.2%) and marketing counselling (8.2%). Table 3.3 also reveals second, third and fourth choices.

**Table 3.3<sup>21</sup>**  
***How Respondents Spend Their Time***

Percent of respondents who ranked the listed activities as those on which they spent the most time, the second most time, etc.

<b>Top-ranked activities</b>	<b>%</b>	<b>Second ranked activities</b>	<b>%</b>
Respond to general enquiries	16.8%	Business plan preparation	18.5%
Business plan preparation	11.4%	Counselling about other programs	11.9%
Evaluating funding proposals	9.8%	Analyze business proposals	10.1%
Financial counselling	9.2%	Evaluate funding proposals	9.5%
Marketing counselling	8.2%	Networking with others	8.9%
<b>Third ranked activities</b>		<b>Fourth ranked activities</b>	
Counselling on other programs	13.5%	General administration	14.8%
Business plan preparation	12.3%	Respond to enquiries	11.7%
Analyze business proposals	10.4%	Evaluate funding proposals	9.9%
Evaluate funding proposals	10.4%	Counselling about other programs	9.9%
Respond to enquiries	8.6%	Networking with others	9.3%

The survey provides a very clear picture of the types of activities on which small business counsellors in the region spend the majority of their time. Whether these activities are

<sup>21</sup> Source: *Survey of Persons ... Associated with Small-Medium Size Business Counselling*

the most significant in terms of impact on the establishment, growth and success of small businesses is another question. The rankings are more a reflection of the client base which is largely at the pre-startup stage or in early stages of development. Evaluation of proposals, counselling about other available programs, business plan preparation, financing counselling, etc. are all focused on the embryonic or newly born enterprise.

### ***Time Spent on Counselling***

It appears from the data that very few of these professionals spend a considerable amount of their time on direct counselling (to analyze and solve specific business problems). Only 15% of respondents spend more than 50% of their time on this kind of work (Table 3.4).

***Table 3.4<sup>22</sup>***  
***Where the Time Goes***

Percent of respondents who spend the time indicated on the various work activities				
Activity	Share of time spent			
	None	1% - 25%	26% - 50%	Over 50%
Reviewing program assistance / funding applications	16.5%	49.0%	20.5%	11.0%
Direct counselling to analyze/solve business problems	10.6%	49.7%	23.1%	14.6%

However, 30% said they should be spending 25-50% of their time and almost a quarter feel they should be spending over 50% of their time counselling. Responding to general enquiries, evaluating funding proposals, general administration, and a host of other activities place other, and perhaps competing, demands on their time.

<sup>22</sup> Source: *Survey of Persons ... Associated with Small-Medium Size Business Counselling*

Of those who reported they spend no time on counselling, there are some interesting, but tentative, observations. A third of respondents who work in community and regional development associations do no counselling, followed by employees in federal government (19%) and the provincial government (14%). Respondents with less than 7 years of experience were more likely to be doing NO counselling (16% versus 11% for the total sample), and women respondents are spending proportionately less of their time on direct counselling.

Of those devoting 1-25% of their time on counselling, federal government employees had the highest representation (71% of them versus 53% of provincial government employees and 49% of Community Futures/BDC employees). People with the greatest number of years of experience were in this group as well (61% of those with 16-15 years of experience; and 58% of those with 11-15 years). In terms of career backgrounds, people with bank and trust company experience tended to be under-represented in this group.

For those spending over 25% of their time on counselling, business consultants (62%) and FBDB/CASE (56%) exceeded the other categories. And in terms of career experience, three groups were significantly above the average representation - those who had managed a small business, held a management position or had bank or trust company experience.

The greatest amount of counselling time appears to be spent counselling clients on the preparation of a business plan.

### ***Who Are the Most Important Clients?***

The survey asked respondents to rank their most important "publics" - the groups which represent the people they come most into contact with. To some degree this question addresses the issue of who small business counsellors in the

region identify as their most important types of clients. However, the question was closed-ended in that it presented a list of options, some of which represented “types” of clients - start-ups, managers in small/medium-sized businesses, owners in existing businesses, etc. - and some of which represented the agencies from whom referrals are drawn - government departments and agencies, associations, or local groups. Respondents ranked their five most significant “publics” and identified what percentage of work time is devoted to each category (Table 3.5).

**Table 3.5<sup>23</sup>**  
**Who Counts - and Who Gets the Attention**

Amount of time spent with each group of clients according to the counsellors' most significant public

"Publics" selected	Amount of time spent with public ranked:		
	First (%)	Second (%)	Third (%)
Pre-business startup	33	24	15
Owner/entrepreneur	31	32	11
Association or other	11	9	20
Managers in small/medium business	7	15	14
Government department/agency	7	9	23
General public	7	5	6
Other (students etc.)	2	3	3
Large businesses	1	3	7
Local investors	0	1	2

Three of the top four ranked “publics” are pre-startup, owners of existing businesses, and managers of existing businesses. This is where small business counsellors in the region see their business coming from, and so, in a sense, these are the groups perceived as being their most important clients. Unfortunately the survey does not explore the demand side of

<sup>23</sup> Source: *Survey of Persons ... Associated with Small-Medium Size Business Counselling*

the equation - where the major client needs are and how well they are being met by the counselling community.

Most counselling appears to be being done in the initial up-front stages of business creation with relatively new, inexperienced entrepreneurs.

### ***Which Sectors Get the Most Attention***

Across the region it is interesting to note which business sectors are being served by professionals in these organizations. Respondents were asked to indicate what amount of time they spent working with small businesses in various sectors (on a scale of 1 to 5 where 1= "spend little time on" and 5= "spend a lot of time on"). The top ten sectors were:

1. Tourism services - accommodation/lounge/restaurant
2. Manufacturing
3. Business services
4. Retail trade
5. Food and beverage processing
6. Personal and household services
7. Local government services
8. Logging and forestry
9. Fishing and trapping
10. Construction

With the exception of Prince Edward Island where manufacturing is ranked seventh, tourism services, manufacturing, business services and retail trade are the areas where small business counsellors in all four provinces spend most of their time. These are also, of course, the areas where barriers to entry are lowest and where the greatest number of small businesses exist. This information is useful in providing a picture of where small business is developing, although there are many other sectors and types of small businesses which are born each year across the region.

## ***Difficulty Experienced in Small Business Counselling***

While small business counsellors have a clear picture of their work priorities and activities, it is interesting to compare this list of activities with what counsellors define as their most difficult and easiest tasks. The survey asked respondents to rank activities on a five point scale where 1= "small amount of difficulty" and 5= "large amount of difficulty". The five activities which are rated as *least* difficult by small business counsellors are:

<u>Activity</u>	<u>Mean</u>
Providing information on assistance programs	2.07
Providing general business advice	2.20
Identifying financing sources	2.33
Providing province-specific information	2.37
Record keeping	2.39

These are all relatively straightforward information dissemination activities which require a bibliotechnical knowledge - knowing what information is available and knowing where to find it. These are not activities which involve the counsellor in analysis of business problems or developing complex solutions and action programs. On the other hand, the five activities rated as *most* difficult by small business counsellors in the region are:

<u>Activity</u>	<u>Mean</u>
Technological innovations	3.27
Dealing with a client's lack of basic business knowledge	3.21
Market and marketing strategies	3.18
Import/export	3.18
Research and development	3.15

Three of these activities - technological innovations, R&D and import/export - are not ranked within the 10 most time demanding activities of small business counsellors in the region (which may be a reflection of the type of business). Yet, as Chapter Two illustrates, R&D and technological innovation are key elements in the growth and success of small businesses. Importing and exporting are less significant activities for small businesses, although growing SMEs trade across provincial boundaries and explore external markets. Once again, this profile is explained, in part at least, by the type of businesses which make up the client base - pre-startup, startup, early stage, tourism, retail, etc.

It might be argued that the focus of small business counsellors in Atlantic Canada is directed towards basic "foundation" activities such as aiding in the development of business plans, reviewing ideas and proposals, and helping with financing requests and marketing plans, rather than "leverage" activities such as research and development, innovation, exporting, strategic planning, and total quality management. This may be a reflection of the stage of development of their client's small businesses or it may simply be a reflection of the counsellors' perception of client needs. It may also indicate that SMEs may be using other sources such as private management consulting firms or agencies like the NRC, Agriculture Canada, etc. The data call for a discussion and evaluation of the focus of small business counselling activities by the counsellors of the region, as well as follow-up research on client needs and key strategies.

A different perspective is gained in Table 3.6 by looking at the business sectors which counsellors find easiest and most difficult to deal with.

**Table 3.6<sup>24</sup>**  
**Who's easy to counsel - and who's not**

Ranking by counsellors of the degree of difficulty of working with different sectors (on a scale of 1 to 5, with 1 being the least difficult)

Sector	Mean level of difficulty
<b>The five least difficult sectors</b>	
Local government service	2.21
Business service industries	2.29
Retail trade	2.32
Wholesale trade	2.32
Personal and household services	2.40
<b>The five most difficult sectors</b>	
Agriculture and related industries	2.83
Logging and forestry	2.80
Manufacturing	2.76
Fishing and trapping	2.75
Mining and petroleum	2.74

The picture here is an interesting one because again it supports the idea of a focus on foundation activities rather than leverage activities. The five sectors which are rated as least difficult are the least complex, tend not to be technologically oriented, and do not involve R&D, at least in the traditional sense. The five most difficult sectors are just the opposite. They are strongly technologically focused, innovation is the key to success, and research into new methods, new technologies, new applications, and new markets is central to their growth.

These data begin to raise the question about the most appropriate focus for small business counsellors in the region, and perhaps about their basic business training and experience. Their backgrounds are centred on business and management fundamentals, critical for startup and early stage

<sup>24</sup> Source: *Survey of Persons ... Associated with Small-Medium Size Business Counselling*

growth. But as the research on GSMEs indicates, once a small business has established itself, growth depends on other, more complex factors. The question should be asked, to what degree should the small business counselling community begin to adapt some of its resources to addressing these issues and acquire enhanced skills and knowledge to be more effective in serving the more sophisticated needs of their clients?

### ***The Professional Development Needs of Counsellors***

An elaboration of the on-going commitment to professional development among people who are working in these economic and business development environments can be gained by examining the most frequent types of business-related and professional development courses respondents have taken over the last five years. They include economic development (EDAC), marketing, training/motivation, finance (analysis, diagnosis, forecasting, statement preparation), general business administration and management, tax, strategic planning, general level computer applications, accounting/bookkeeping, communications, sales, and entrepreneurship. Needless to say, the titles of courses can only give a flavour of their content and this may vary widely within courses of the same title. However, the respondent group attended some 240 of these courses over a five year span, which, given that their educational backgrounds tend to heavily weight business concentrations, may speak for a desire to improve on and hone specific skills needed for the small business counselling role.

Complementing this picture of a group of individuals who are committed to upgrading and strengthening their skills is the fact that survey respondents identified an equally long list of courses they would like to take. These included marketing and market research (12% of responses), general use of computers, finance, economic development, business opportunity identification and evaluation, strategic planning techniques,

human resources, the preparation of business plans, technology diffusion and its management and evaluation, communications, and training/motivation. Professionals involved in small business counselling are interested in ongoing upgrading and updating of relevant skills and knowledge.

*Computer Proficiency.* An interesting element of the educational and experiential background of respondents is the degree of computer proficiency which they possess. Computers are becoming increasingly essential in modern business and organizations. They have a myriad of uses, from information and control sources to financial systems, to controlling automated processes, to generating documents, statements, graphs, presentations, etc. It is becoming difficult to conceive of a business of any significant size operating efficiently without the use of computers. The survey inquired about computer proficiency at a basic level - applications of common commercial software packages like word processing, spreadsheets, charts and graphs, and databases. The percentage of respondents who indicated a high degree of proficiency in these applications is low - word processing 30%, spreadsheets 21%, charts, graphs, etc. 14%, and databases 9%.

One is tempted to think that it is individuals' normal modesty which prevents them from rating their proficiency as "high". When asked to indicate if their proficiency with these common business software applications was *non-existent*, the results were more comforting - word processing 11%, spreadsheets 14%, charts, etc. 21%, and databases 23%. The two most common business software applications are word processing and spreadsheets, and 85% to 90% of these small business counsellors have some facility with them.

*Future Needs.* A further question in the survey asked respondents to identify the areas in which they felt it was most important to acquire new information or knowledge in order to be more effective in their counselling work. They assigned a

weighting from 1 to 5 (1= “not important”; 5= “very important”) to each of these areas. The ten subject areas of most importance are ranked in Table 3.7.

**Table 3.7<sup>25</sup>**  
***The gaps in counsellor knowledge***

The importance attached by counsellors to the acquisition of additional knowledge in the subject areas shown (on a five-point scale, with 1 being not important)

Ranking	Subject area	Mean
1	Development of entrepreneurship	3.78
2	Markets and marketing strategy	3.76
3	Identification, analysis and diagnosis of business problems	3.75
4	Techniques of market research	3.70
5	Identification of symptoms of business success and failure	3.69
6	Market trends and developments	3.67
7	Identification of business opportunities	3.65
8	Strategic planning techniques	3.63
9	Analysis of business ideas	3.59
10	Innovation and new product/process development	3.59

They consistently ranked topics such as union contract administration, wage administration, paper burden, and auditing techniques as being of low importance.

While there appears to be an incongruity between the finding that innovation/new product development ranks tenth on the list when, as Chapter Two points out, innovation is the major differentiating factor of higher growth SMEs, this is a reflection of the fact that almost half of the small business counsellors' time is reported to be spent with pre-startup entrepreneurs. These clients need help with identifying business opportunities, evaluating them, researching markets, preparing plans, etc. More successful and medium-sized firms, who are at a stage where innovation is a more pressing issue, may

<sup>25</sup> Source: *Survey of Persons ... Associated with Small-Medium Size Business Counselling*

tend not to use the services of publicly funded support agencies as much, and when they do, refer to management consultants, or sophisticated agencies such as the National Research Council (NRC) and other groups not included as part of this survey.

*Only three of the top ten items chosen by respondents addressed the critical elements for growth and success identified in Chapter Two, market research, strategic planning, and innovation and new product development.* The overall list of 66 functions/ activities/ decision areas in the survey questionnaire included *research and development; import/export; technological innovations; and technology management.* However, none of these were seen by the region's small business counsellors to be areas where new information or knowledge was urgently needed to make counselling more effective. Once again, this may be linked to who their clients are, however, this sounds a warning bell for the future as businesses grow and develop.

In terms of professional and practical business-related courses, seminars or training programs they would like to take in the foreseeable future to improve their effectiveness with clients, the most common references were made to marketing methods, networking, development trends, global trends in economic development, community involvement in development, opportunity identification, human resources development and record-keeping for the small business.

They were also consistent in their responses to what new tools or resources should be provided by their organizations that would be most useful in enhancing their effectiveness in counselling clients. The mean scores for this list are given in Table 3.8 .

**Table 3.8<sup>26</sup>**  
**Resources Counsellors Want**

Tools and resources listed by counsellors as most likely to enhance their effectiveness (on a scale of 1 to 5, with 1 being not important)

Tool or resource	Mean importance
Lists of specific sources of business information	3.89
Access to business-related databases	3.86
Networking among other counsellors	3.78
Business/marketing plan check lists	3.65
Business situational diagnosis/analysis	3.55
Incentives to business	3.49
Better communication channels	3.41
Concept/project evaluation tools	3.36
Computerized, interactive or self-training programs	3.18
Lists of trade shows, exhibitions and conventions	3.17
Lists of sources for training videos	2.95
Access to business specialists	2.66

Information lists and diagnostic and 'how-to' checklists were suggested as being the most helpful tools.

### **Conclusions**

Inferences can be drawn from the survey data that the focus of small business counselling in the Atlantic region is currently largely at the "foundation" level. But there are indications that a movement towards "leverage" activities - the activities and strategies which promote growth and success - is beginning. A conference titled "Forum on the Professional Development Needs of Small Business Counsellors and Economic Development Practitioners", held in Moncton in March, 1993, under the auspices of ACOA, raised a number of the issues, pointing out the changing role and needs of

<sup>26</sup> Source: *Survey of Persons ... Associated with Small-Medium Size Business Counselling*

counsellors and the evolving need for new and different skills in dealing with different clients. At the moment, small business counselling in the region is focusing on getting enterprises off the ground.

Overall, this study re-affirmed the need for training and professional development for people already in the field. In terms of the components of on-going professional development, there seem to be three areas for enhanced knowledge and skills. These relate to counselling skills, functional/technical skill areas, and business environment knowledge.

The point was made in Chapter Two that over the decade from 1979 to 1989, the number of startups of firms with less than five employees was 34% greater than the total number of firms of that size that existed in 1979. Many of the findings of the Business Resources Inc. survey are put into context by facts quoted earlier in this report: more than half of the firms of all sizes that existed in 1979 went out of business in the decade to 1989. In the two years between 1989 and 1991, 32% of the firms that existed in 1989 had disappeared - three times the rate of the preceding decade. Almost 40% of the firms with fewer than five employees that existed in 1989 no longer existed in 1991. *But over the same two years the number of firms existing in 1989 increased by 35% (firms with less than five employees increased by 41%).* Quite clearly the weight of the need for small business counselling is still on pre-startups, startups, and early stages of development.



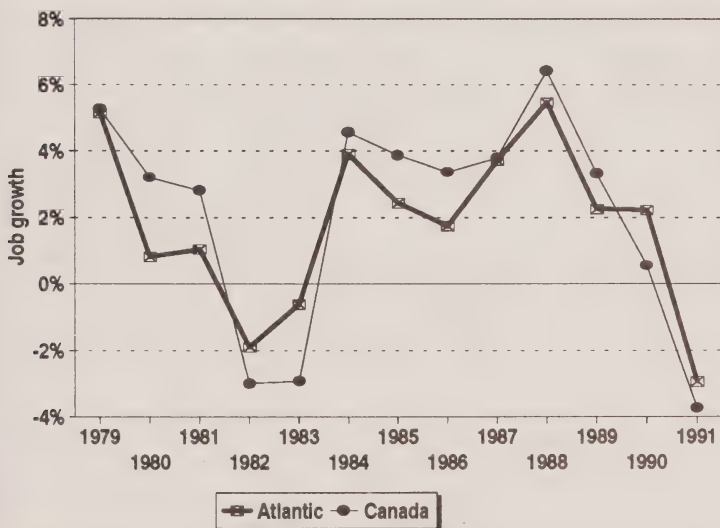
## Chapter 4

# RECESSION FIGHTERS

The effects of the economic restructuring that began in 1990 and took hold in 1991 are evident from Chart 4.1 below, which shows the sharp reversal in employment growth at the start of the decade. The trend observed in last year's report, however, still holds - Atlantic Canada suffers less in bad times and benefits less in good times.

Chart 4.1<sup>27</sup>  
*The swings are worse for Canada*

Employment growth rate each year. Canada and Atlantic Canada, 1979-91

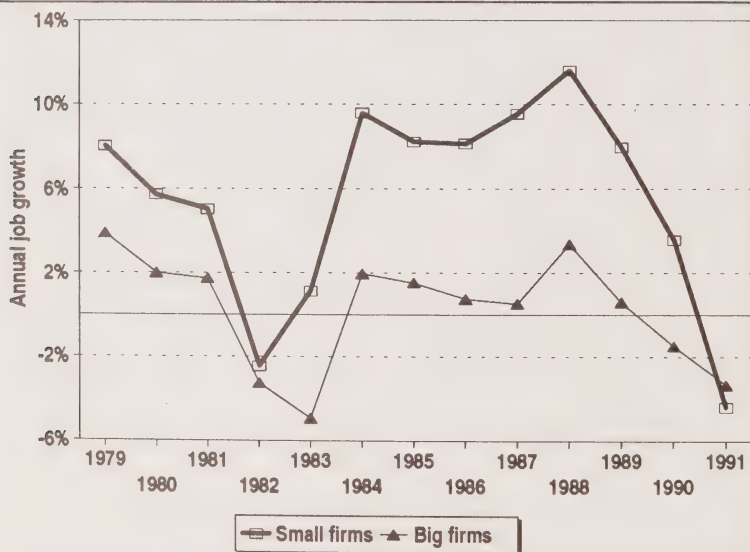


<sup>27</sup> Source: Unless otherwise stated, the source of the data analyzed in tables and charts in this chapter is *Employment Dynamics, Business Size & Life Status*, prepared by the Small Business & Special Surveys division of Statistics Canada.

For both the Atlantic region and the country as a whole, the loss of jobs was significantly worse this time around than at the start of the last recession, in 1982, which was at that time the worst reversal in more than 50 years. For small firms, the contrast was even more pronounced. As Chart 4.2 shows, the patterns of job creation are more volatile for small firms than for big organizations; after a decade of extraordinary strength, when they consistently outperformed big firms in job creation, small firms were hit harder than big firms in the current restructuring.

**Chart 4.2<sup>28</sup>**  
**1991 was disastrous for small firms**

Employment growth rate each year for big firms and small firms. Canada, 1979-91



Furthermore, it is not clear at this point if small firms recovered as quickly from the downturn as they did in 1983,

<sup>28</sup> Source: *Employment Dynamics*

when big ones deepened their cutbacks, while small firms started expanding again. Over the period from 1983 to 1989, small firms just took off, averaging an annual rate of growth in employment about seven percentage points higher than in big firms - which is a big gap compared to the boom years prior to the 1982 recession, when the gap between small and big firms was a little more than three percentage points.

It must therefore be asked if the severe retrenchment in 1991 signals the end of the small-business edge. The answer is almost certainly that there has not been a change in fundamental trends - mainly because the figures for the current restructuring are heavily distorted by Ontario, which has been through a wrenching adjustment far worse than anywhere else in Canada.

Canada's economic heartland started its deterioration compared to the rest of the country in 1990, when employment grew in Ontario's small firms by 0.6%, compared to 3.6% nationally; the divergence was almost as bad in big firms, which declined by 4.0% in Ontario compared to 1.5% nationally. In the following year, big firms held relatively steady, declining by 3.7% in Ontario compared to 3.3% nationally, but the employment in small firms collapsed, declining by 8.6% in Ontario. This startling reversal skewed the national decline in employment in small firms; without Ontario, small firms in the rest of Canada fared significantly better than the 4.4% decline shown in Chart 4.2 - certainly better than the decline in employment in big firms.

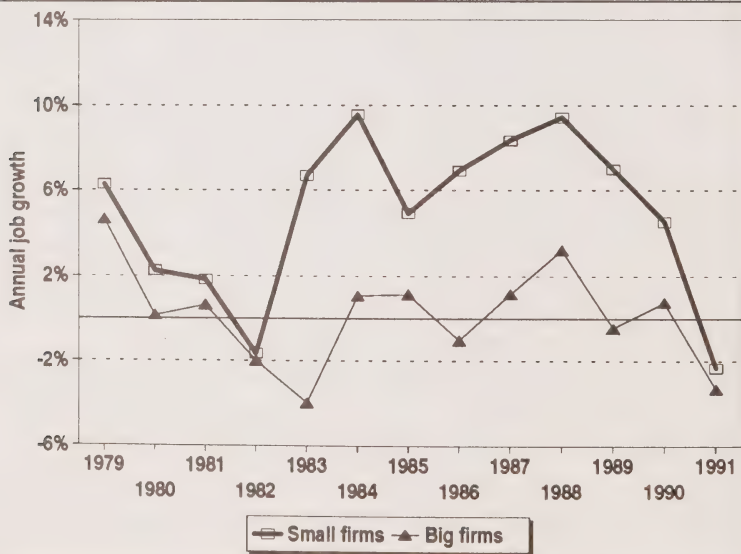
This still begs the question whether Ontario's loss of jobs is a long-term economic trend or was precipitated by temporary phenomena that are unlikely to recur. There were a number of indications in 1991 that there had been a severe loss of confidence in the small-firm sector, based on a combination of political and economic repercussions from an extended period of white-hot growth. This is unlikely to be permanent, so it is reasonable to postulate that the underlying pattern of the

last recession is reasserting itself, with small firms keeping at least some gap over big firms in job creation.

The pattern has certainly held in Atlantic Canada, where small firms lost jobs in 1991, but at a slower rate than big ones, as Chart 4.3 shows. Interestingly, the gap between the increase of employment in small and big firms is quite close to that of Canada over the decade, although somewhat more erratic, particularly in 1983. In that year, the gap reached almost 11 percentage points as small firms recovered strongly with a growth rate of 6.7% while big firms continued to decline, shrinking by 4%.

**Chart 4.3<sup>29</sup>**  
***Atlantic small firms are holding up better***

Annual employment growth rate each year for big firms and small firms. Atlantic Canada, 1979-91

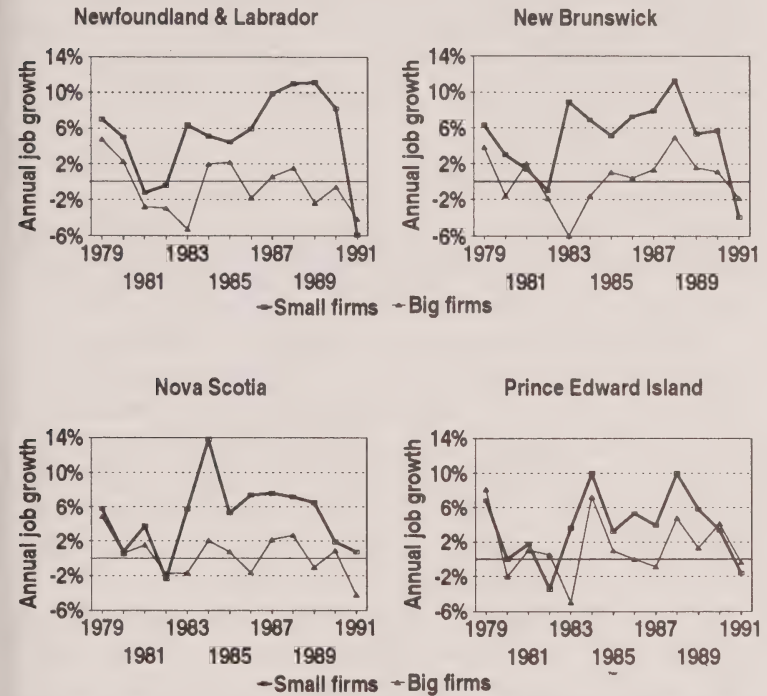


<sup>29</sup> Source: *Employment Dynamics*

However, when the four provinces of the region are considered independently, there are significant variations between them, as Chart 4.4<sup>30</sup> shows.

Chart 4.4  
**Provincial variations in the growth stakes**

Annual employment growth for big and small firms in the four Atlantic provinces, 1979-91



In 1991, small firms lost jobs more rapidly than big firms in three provinces; only in Nova Scotia did small firms do well, eking out a small gain in employment, while large organizations declined by 4.3%.

<sup>30</sup> Source: *Employment Dynamics*

In Newfoundland, the four strong years of high new-venture formation between 1987 and 1990 came to a sudden end with a severe setback as jobs in small firms declined by 5.8%. This represented a drop of 14 percentage points from the previous year in the growth rate of employment. This was due in part to the collapse of the fishery, of course - with a corresponding impact on large organizations, where employment declined by 4.2%.

Nova Scotia's growth in small businesses was less spectacular during the boom years (with the exception of a sudden and unexplained spurt in 1984), but small firms in the province demonstrated unusual stability with an employment gain of 0.7% in 1991.

New Brunswick performed well in the boom years, even in large organizations, but, like Newfoundland, strong job creation in small firms in the late 1980s was followed by a severe decline in the sector in 1991, when the rate of job creation in small firms plummeted 9.6 percentage points.

Prince Edward Island exhibited a much smaller gap between employment growth in big and small firms than did the other three provinces. When growth rates are averaged out over the 1982-91 period, the island's small firms averaged a rate of job creation only 3.5 percentage points higher than that of big firms, as Table 4.1 shows. By comparison, the gap was about 6 percentage points in Nova Scotia and New Brunswick and 7 in Newfoundland.

The region was very close to the Canadian average for the period. It is notable that the trends driving the creation of jobs in small firms appear to be consistent across the country; the growth rate for small firms is at 6% or just above in every jurisdiction except Prince Edward Island, where they grew more slowly, at 4.8% per year. The trend in big firms is less consistent, being driven by regional factors to a greater degree. Nationally and regionally, big firms stood still over the nine years of the economic cycle, with an increase in employment only marginally above zero. Nova Scotia and New

Brunswick were both close to this average, but Prince Edward Island showed growth of 1.3% and Newfoundland declined rapidly, at almost 1% per year.

Table 4.1 <sup>31</sup>  
**The Growth Gap**

The average annual rate of employment growth over the period between the same stage in two successive economic cycles (from 1982 to 1991).

Region	Average annual rate of employment growth, 1982-91			
	Total	Small firms	Big firms	Difference
Canada	2.1%	6.0%	-0.1%	6.2%
Atlantic	2.0%	6.1%	-0.2%	6.2%
New Brunswick	2.1%	6.0%	0.1%	5.9%
Newfoundland	1.4%	6.1%	-0.9%	7.1%
Nova Scotia	2.1%	6.2%	-0.1%	6.2%
PEI	3.0%	4.8%	1.3%	3.5%

Notes: Small firms employ fewer than 100 people, big firms 100 or more

The composite figures for growth of small firms hides significant variations between the smallest firms (those employing fewer than five people) and the bigger ones employing 50 to 99 people. The smallest firms have consistently led the growth stakes since the start of the 1980s for two reasons: they reflect the high rate of new venture formation in the 1980s and their small size means that every extra employee added to their payroll translates into a high growth rate. On average, these firms have expanded their employment by 14.3% p.a. from 1982 to 1991.

The trick, however, is to make these jobs stick, because the failure rate of new ventures is notoriously high. One measure of the success rate of new ventures is the employment growth rate of the bigger small firms, many of which are new ventures that have survived the vulnerable startup phase. For firms that stabilize without further growth at this point, the failure rate is relatively low; but for those that seek to

<sup>31</sup> Source: *Employment Dynamics*

grow into mid-sized firms, the rewards in new jobs are enormous, while the risks are even greater than in the startup phase. The outlook in the region is positive in this regard, with firms employing 50 to 99 people growing by an average of 1.2% a year over the 10-year period, as Table 4.2 shows.

**Table 4.2<sup>32</sup>**  
***The might of small firms***

Rate of employment growth each year for each size of employer (measured by number of employees). Atlantic Canada, 1979-91.

Year	Annual rate of employment growth (%), by size of employer						
	1-4	5-19	20-49	50-99	100-499	500+	Total
1979	17.4	2.9	3.7	2.4	6.5	4.1	5.1
1980	10.7	0.0	0.4	(0.9)	(0.3)	0.3	0.8
1981	12.5	(0.4)	(0.5)	(3.3)	0.6	0.7	1.0
1982	7.2	(3.4)	(4.6)	(5.3)	(3.1)	(1.7)	(1.9)
1983	20.2	4.6	0.6	1.4	(3.7)	(4.1)	(0.6)
1984	19.6	6.6	6.7	5.5	1.4	1.0	3.9
1985	12.8	3.4	2.9	0.2	1.3	1.1	2.4
1986	16.7	4.1	4.6	2.7	(1.2)	(1.0)	1.7
1987	18.3	5.8	5.1	4.6	2.4	0.8	3.7
1988	19.5	7.2	5.4	6.2	5.7	2.5	5.5
1989	15.4	5.3	6.3	0.7	2.7	(1.3)	2.3
1990	11.3	3.0	3.2	0.2	(1.4)	1.4	2.2
1991	4.8	(4.2)	(5.2)	(3.7)	(7.1)	(2.3)	(2.9)
10-year average	14.3%	3.1%	2.4%	1.2%	-0.4%	-0.4%	1.6%

Between 1981 and 1991, the average growth rates of firms employing 5 to 19 and 20 to 49 people were 3.1% and 2.4% - a strong performance that is steadily strengthening the small-business base of the regional economy. The comparable performance for Canada was 3.5% and 1.9% respectively, which is close enough to make the Atlantic region's growth

<sup>32</sup> Source: *Employment Dynamics*

just as good as the nation's in this crucial part of the economy.

There is still, however, concern over 1991, when the growth rate in firms employing fewer than five people was only 4.8%, well below the 7.2% recorded in 1982, the comparable point in the last economic cycle. This probably reflects a more cautious approach by new entrepreneurs, particularly the self-employed with no paid help, as the other categories of (larger) small firms did not fare significantly worse in 1991 than in 1982.

It is notable that firms employing more than 500 people have performed consistently poorly since 1980. With the exception of 1988, when they went on a hiring binge, these organizations were static in the remaining 12 years, shedding labour in five of the years and growing by very small amounts in the other seven. The average for the last 10 years came in at a net loss of 0.4% p.a. for organizations employing more than 500 people, compared to a growth of 5.2% for all small firms employing fewer than 100 people.

The importance of small firms is even more pronounced in the market sector - that part of the economy where customers have alternative suppliers available. As Table 4.3 shows, big firms in the market sector lost 6,200 jobs over the seven years to 1991, while small firms created 91,900 new jobs, or 107% of the total new jobs created in the market sector. The downsizing of large firms was particularly evident in 1991, when large firms shed 13,400, or double the net jobs created by their sector over the previous six years.

By contrast, in the funded sector, big firms contributed 12,200 new jobs compared to the 17,300 (or 59% of the total) created by small firms. Clearly, the government-supported sector is the only one feeding job growth in large organizations; the large, private-sector firms are downsizing rapidly. Small organizations in the funded sector performed better than large firms, but not as well as their counterparts in the market sector.

**Table 4.3<sup>33</sup>**  
**Anatomy of a downsizing**

New jobs created each year by big and small firms in the market sector and the funded sector (see Note below), and the share of total new jobs created by small firms. Atlantic Canada. 1985-91

Year	New jobs created in the sector (000s):			Small-firm share
	Big firms	Small firms	Total	
Market sector				
1985	6.1	10.5	16.6	63%
1986	(6.8)	16.5	9.7	170%
1987	2.8	19.0	21.8	87%
1988	9.2	24.2	33.4	72%
1989	(2.4)	18.6	16.2	115%
1990	(1.8)	11.2	9.4	119%
1991	(13.4)	(8.1)	(21.4)	38%
Total	(6.2)	91.9	85.7	107%
Funded sector				
1985	(0.6)	1.9	1.3	146%
1986	1.8	1.6	3.4	47%
1987	2.9	3.8	6.7	57%
1988	6.9	3.1	10.0	31%
1989	0.0	2.9	2.9	100%
1990	5.9	4.1	10.0	41%
1991	(4.7)	(0.1)	(4.8)	1%
Total	12.2	17.3	29.5	59%

*Note: The funded sector is those industries that do not compete with market forces in earning their revenues; they include health and social services, educational services and government services. The market sector is all other industries.*

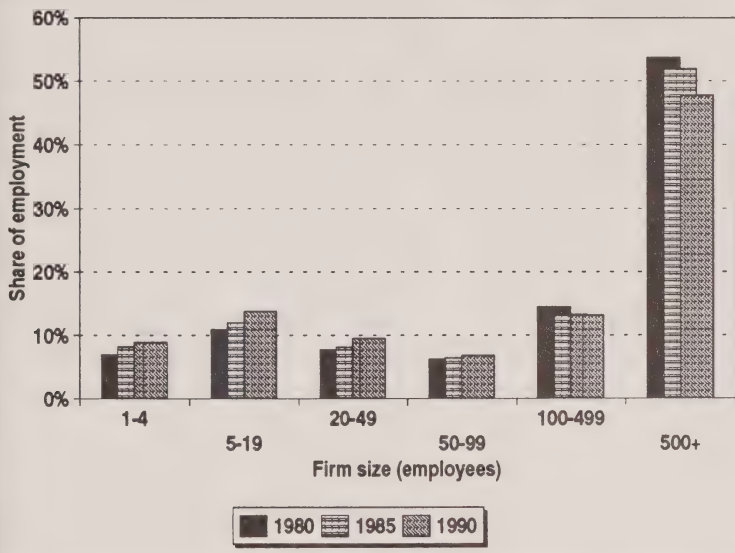
The net effect of this job-creation machine in small firms has been to shift the centre of gravity of the economy progressively toward smaller firms. The smallest firms are accounting for a growing share of the whole economy while the biggest firms see their share being reduced. Organizations

<sup>33</sup> Source: *Employment Dynamics*

employing more than 500 people now account for less than half of total employment, as Chart 4.5 shows.

*Chart 4.5<sup>34</sup>*  
**The region relies increasingly on small firms**

Share of total employment, by firm size according to number of employees. Atlantic Canada, 1980, 1985 and 1990.



The biggest firms now employ 48% of all employees, compared to 54% in 1980. Meanwhile, the firms employing fewer than 50 have raised their share of the workforce to 32% from 26%. In both cases, two-thirds of the change has occurred between 1985 and 1990 (mostly in 1990 and 1991).

<sup>34</sup> Source: *Employment Dynamics*

## *The Business Count*

This evolution can also be seen clearly in the count of businesses in the region. Table 4.4 below shows how micro firms, employers of fewer than 5 people have been growing at an average annual rate of 5% since 1981, while the number of large employers has actually declined by 0.5% a year.

*Table 4.4<sup>35</sup>*  
**An explosion of small firms**

Number of firms, by size, in 1981 and 1991 and the average annual growth rate of each firm size over the period. Atlantic Canada, 1981, 1991

Firm size (# employees)	1981		1991		Average annual growth
	Number	Share	Number	Share	
Fewer than 5	39,653	69.4%	64,229	73.2%	4.9%
5-19	9,478	16.6%	13,615	15.5%	3.7%
20 - 49	2,499	4.4%	3,656	4.2%	3.9%
50 - 99	1,274	2.2%	1,766	2.0%	3.3%
Small firms	52,904	92.6%	83,266	94.9%	4.6%
100 - 499	2,141	3.7%	2,469	2.8%	1.4%
500 or more	2,077	3.6%	1,983	2.3%	-0.5%
<b>All firms</b>	<b>57,122</b>	<b>100.0%</b>	<b>87,718</b>	<b>100.0%</b>	<b>4.4%</b>

Over the 10-year period, the number of firms in the region with fewer than five employees grew to almost 65,000 from about 40,000. Interestingly, the number of small firms employing 5 to 99 people also grew strongly in the decade, although at a slower rate than the micro-businesses. This is an encouraging sign, indicating that there is a good supply of growth-oriented firms in the region.

Looking at the industrial break-out of the number of firms gives us a good idea of where this high rate of new venture formation is occurring. As Table 4.5 shows, small businesses are concentrated in other services (anything from personal

<sup>35</sup> Source: *Employment Dynamics*

services to membership associations and religions), where 21% of the firms are, compared to 6.5% of big firms.

**Table 4.5 <sup>36</sup>**  
***The diversity of small business***

Number of small and big firms by industry, showing each industry's share of the total within each size sector. Atlantic Canada, 1990

Industry	Small Firms		Big firms	
	Number	Distribution	Number	Distribution
Agriculture	3,958	4.8%	9	0.2%
Fishing	4,165	5.0%	2	0.0%
Forestry	1,625	2.0%	2	0.0%
Mining	186	0.2%	64	1.4%
Manufacturing	3,456	4.2%	1,117	25.1%
Construction	9,975	12.0%	172	3.9%
Transportation	3,539	4.3%	160	3.6%
Communications & Utilities	452	0.5%	78	1.8%
Wholesale Trade	4,052	4.9%	747	16.8%
Retail Trade	13,510	16.2%	432	9.7%
Finance	1,168	1.4%	351	7.9%
Real Estate & Insurance	2,059	2.5%	104	2.3%
Business services	3,889	4.7%	341	7.7%
Government	544	0.7%	81	1.8%
Education	577	0.7%	88	2.0%
Health	4,816	5.8%	186	4.2%
Accommodation., Food, Beverage	5,073	6.1%	156	3.5%
Other services	17,431	20.9%	289	6.5%
Unclassified	2,791	3.4%	66	1.5%
<b>Total</b>	<b>83,266</b>	<b>100.0%</b>	<b>4,452</b>	<b>100.0%</b>

Small firms are also more concentrated than big firms in construction (12% compared to 4%) and primary industries (12% compared to 1.6%). Big firms, on the other hand, are heavily concentrated in manufacturing firms, which account

<sup>36</sup> Source: *Employment Dynamics*

for one quarter of all big employers. Small firms are big in the retail industry, as might have been expected, but one-sixth of all big firms in the region are wholesalers.

### ***Self-employment in Context***

Statistics Canada conducts a census every five years to give us an accurate snapshot of demographic trends. As part of this survey, it sends 20% of the population an extended questionnaire which gives a highly accurate reading on self-employment, among other things. This section of *The State of Small Business and Entrepreneurship* provides an overall view of self-employment in 1991, with some reference to the evolution of self-employment since 1981.

As Table 4.6 shows, self-employment is more developed in Canada than in the Atlantic provinces:

- 7.2% of the workforce is self-employed in the region, compared to 9.5% for the country<sup>37</sup>.
- The percentage of owner-managed businesses that are incorporated is lower in the region - 26% compared to 34% for the country as a whole.
- The percentage of the self-employed who are women is slightly less in the region (25.4%) than in the country (28.0%), despite an almost identical proportion of women in the workforce as a whole.

The growth of entrepreneurship in developed economies usually starts with an increase in the percentage of self-employment in the workforce as a whole. [In the past decade, women have been driving this process, because they represented two-thirds of the increase in the workforce.]

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<sup>37</sup> In Statistics Canada's Labour Force Survey, the percentage of the population that is self-employed is significantly higher than in the census. The data collectors for the Labour Force Survey tend to probe more than is possible with the census questionnaire. For example, babysitters might be viewed by the Labour Force Survey as self-employed, while the census would do so only if the babysitter took in clients in his or her home or place of work. Both surveys are valid measures of trends over time, even if they disagree on absolute numbers.

**Table 4.6<sup>38</sup>**  
**A snapshot of the self-employed**

Highlights of the 1991 census, showing facts relevant to the self-employed population in Canada and Atlantic Canada

	Atlantic	Canada
Total workforce	1,149,240	14,471,040
Self-employed	83,055	1,368,195
% self-employed	7.2%	9.5%
Incorporated	21,600	465,320
Unincorporated	61,455	902,875
% incorporated	26.0%	34.0%
Males	637,995	7,906,900
Females	511,245	6,564,140
% females	44.5%	45.4%
Full-time	931,030	11,623,990
Part-time	218,210	2,847,050
% part-time	19.0%	19.7%
Self-employed males	61,955	985,090
Self-employed females	21,095	383,105
% self-employed females	25.4%	28.0%
Average age employees	36.3	37.0
Average age self-employed	43.4	44.2
<b>Education levels</b>		
Employees: Less than grade 9	8.9%	6.7%
Employees: Secondary school	36.7%	37.0%
Employees: Post-secondary	54.5%	56.3%
Self-employed: Less than grade 9	15.6%	10.7%
Self-employed: Secondary school	32.8%	32.2%
Self-employed: Post-secondary	51.6%	57.1%

*Note: The workforce includes unemployed people. This means the ratio of self-employment in the region is further behind that of Canada than it would be for the proportion of the employed who are self-employed, particularly considering the increase of unemployment in the region over the past decade*

Most new small businesses start out unincorporated; once they have survived and matured to the point where the extent

<sup>38</sup> Source: 1991 Census, Statistics Canada

and size of their business transactions creates a need for limited liability, they become more businesslike, which normally might be expected to include incorporating their businesses. Thus a low incorporation rate generally signals a new or less sophisticated self-employed population.

It is worth noting that people new to self-employment are not necessarily younger. The average age of self-employed people in the region is less than the Canadian average by the same margin as that for employees.

Finally, the level of education of the self-employed is significantly lower in the region. About 15% of the region's self-employed have less than a grade 9 education, compared to 10.7% for the country. For employees, the comparison is slightly less marked, with 8.9% having less than a grade 9 education, compared to 6.7% for Canada. Also, there's a higher proportion with post-secondary education among the self-employed at the national level than there is among employees; in Atlantic Canada, the reverse is true.

The most important reason for this disparity is the different industrial mix in the region's self-employment. More than one quarter (28%) of the region's self-employed are in primary industries, compared to 19% for Canada. By contrast, business services, which is the fastest growing industry sector, accounts for only 7% of the region's self-employed, compared to 12% nationally. It is interesting that primary industries have the highest rate of self-employment of any sector - 32% of Canadians who work in the primary industries are self-employed, compared to 25% in the region. The next highest self-employment rate is business services, with 20% nationally and 15% regionally.

The reliance on primary industries for the region's self-employment is illustrated by looking at unincorporated males, 40% of whom are in primary industries, compared to 28% nationally. Only 14% of unincorporated self-employed women are in this sector.

These factors apply across all four provinces, but there are still great differences between them, as Table 4.7 shows:

- Nova Scotia is close to the regional average on most counts, except for education levels, where both its employees and its self-employed are significantly better-educated than their counterparts elsewhere in the region.

**Table 4.7<sup>39</sup>**  
**How the provinces compare**

Highlights of the 1991 census, showing a selection of the facts in Table 4.6 for each of the Atlantic provinces

	Newfoundland	P.E.I.	Nova Scotia	New Brunswick
Total workforce	273,970	68,995	449,320	356,955
Self-employed	18,740	7,400	33,320	23,595
% self-employed	6.8%	10.7%	7.4%	6.6%
Incorporated	4,255	1,520	8,545	7,280
Unincorporated	14,485	5,885	24,775	16,310
% incorporated	22.7%	20.5%	25.6%	30.9%
Full-time	228,570	56,615	357,270	288,575
Part-time	45,400	12,380	92,045	68,385
% part-time	16.6%	17.9%	20.5%	19.2%
Self-employed males	14,270	5,770	24,590	17,325
Self-employed females	4,470	1,630	8,730	6,265
% self-employed females	23.9%	22.0%	26.2%	26.6%
<b>Education levels</b>				
<b>Employees</b>				
Less than grade 9	11.4%	8.6%	6.5%	10.0%
Secondary	36.0%	37.3%	34.9%	39.3%
Post-secondary	52.6%	54.1%	58.6%	50.7%
<b>Self-employed</b>				
Less than grade 9	23.6%	17.2%	11.8%	14.3%
Secondary school	36.0%	40.1%	31.0%	30.4%
Post-secondary	40.4%	42.6%	57.2%	55.3%

<sup>39</sup> Source: 1991 Census, Statistics Canada

- New Brunswick has a smaller percentage of its workforce in self-employment, but they are more mature, with the region's highest rate of incorporation and female entrepreneurs. The education levels of its self-employed are slightly lower than Nova Scotia's but a great deal higher than in Newfoundland and P.E.I.
- Newfoundland has the lowest level of self-employment and education. Almost a quarter of its self-employed have less than grade 9 education - a strong indication of the fishery culture, where formal education is less of a factor than in other industries. Interestingly, the percent of the self-employed who are women (23.9%) is not the lowest in the region; P.E.I. is, with 22%.
- P.E.I. has the highest rate of self-employment in the region (11%) by a large margin, but it also has the lowest incorporation rate and the lowest concentration of women among its self-employed.

### ***A Decade of Transition***

An indication of regional trends can be gleaned from national trends in the decade from 1981-91, as shown in Table 4.8.

In this period of rapid change:

- The rate of self-employment in the workforce rose to 9.5% from 9.1%.
- The percentage of self-employed people whose businesses are incorporated went to 34% from 30%.
- The percentage of the self-employed who are women rose to 28% from 19%.

**Table 4.8 <sup>40</sup>**  
**Changes in the 1980s**

Comparison of major facts relevant to the self-employed in 1981 and 1991, Canada

	Census count			Distribution		
	1991	1981	Change	1991	1981	Change
<b>By corporate status</b>						
Self-employed	1,368,195	1,094,795	273,400	9.5%	9.1%	11.3%
Incorporated	465,320	326,854	138,466	3.2%	2.7%	5.7%
Unincorporated	902,875	767,941	134,934	6.2%	6.4%	5.6%
Employees	13,102,845	10,959,355	2,143,490	90.5%	90.9%	88.7%
Total workforce	14,471,040	12,054,150	2,416,890	100.0%	100.0%	100.0%
<b>By gender</b>						
All Males	7,906,900	7,155,265	751,635	54.6%	59.4%	31.1%
All Females	6,564,140	4,898,890	1,665,250	45.4%	40.6%	68.9%

The self-employed as a whole represented more than 11% of the inflow into the workforce over the decade. Moreover, they are maturing rapidly, because incorporated businesses represented slightly more than half of the increase in the number of self-employed.

Most remarkable, however, is the change in women's participation in self-employment. Women represented two-thirds of the increase in the number of self-employed people. This phenomenon is perhaps less remarkable when it is noted that women represented more than two-thirds of the increase in the workforce over the same period, but the impact on the self-employed is more powerful than in the workforce as a whole.

As expected, fewer women have incorporated businesses, because the phenomenon of self-employment is much newer for them. In 1981, the incorporation rate was 30% for men and 28% for women. In the following decade, self-employed men increased 11% to almost one million from 890,000, while self-employed women increased 87% to 383,000 from

<sup>40</sup> Source: 1981 Census, 1991 Census, Statistics Canada

205,000, as Table 4.9 shows. The lower influx of self-employed men therefore led to a higher incorporation rate, which rose over the decade to 36%. Equally, the incorporation rate rose much more slowly for the women (to 30% from 28%), as their numbers almost doubled.

**Table 4.9 <sup>41</sup>**  
**Anatomy of the growth in self-employment**

Distribution of the self-employed, by gender and corporate status in 1981 and 1991, showing the distribution of the change over the decade. Canada

Self-employed	Census count			Distribution of the total		
	1991	1981	Change	1991	1981	Change
<b>By gender</b>						
Males	985,090	890,120	94,970	72.0%	81.3%	34.7%
Females	383,105	204,675	178,430	28.0%	18.7%	65.3%
<b>By corporate status and gender</b>						
Incorporated	465,320	326,854	138,466	34.0%	29.9%	50.6%
Incorp. males	351,035	269,462	81,573	25.7%	24.6%	29.8%
Incorp. females	114,285	57,304	56,981	8.4%	5.2%	20.8%
Unincorporated	902,875	767,941	134,934	66.0%	70.1%	49.4%
Uninc. males	634,055	620,658	13,397	46.3%	56.7%	4.9%
Uninc. females	268,820	147,371	121,449	19.6%	13.5%	44.4%
Male inc. rate*	35.6%	30.3%				
Female inc. rate*	29.8%	28.0%				
<b>Total</b>						
All self-employed	1,368,195	1,094,795	273,400	100.0%	100.0%	25.0%

\* Note: The incorporation rate is the percentage of the self-employed who have incorporated their businesses

Women now represent 28% of all the self-employed; their incorporated businesses, however, represent only 8% of all self-employed businesses, compared to 26% for men (a ratio of 3.1 to 1); and their unincorporated businesses represent 20% of all self-employed businesses, compared to 46% for men (a ratio of 2.4 to 1).

<sup>41</sup> Source: 1981 Census, 1991 Census, Statistics Canada

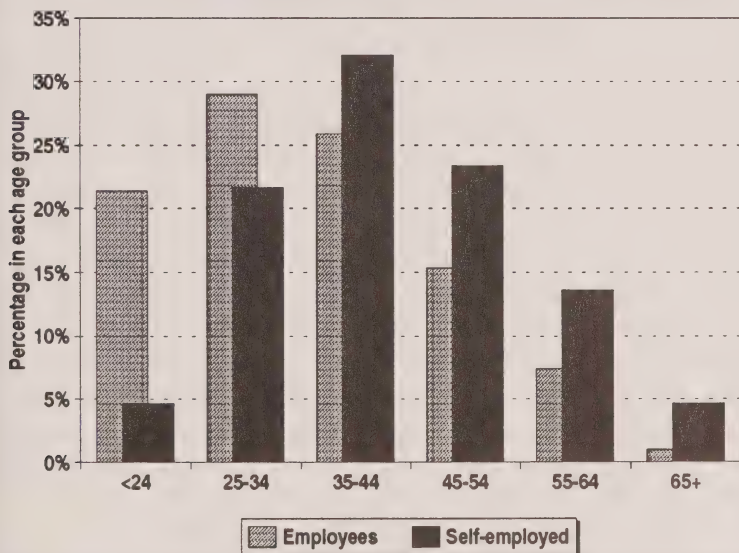
This is changing and will change still more as women become more integrated among the self-employed. In the decade to 1991, incorporated businesses represented just over 50% of the increase in self-employment - and two out of every five of these were women.

### ***It Takes Time to Make an Entrepreneur***

The average age of entrepreneurs is markedly higher than that of employees, as was mentioned in Table 4.4. Chart 4.6 shows why: the percentage of self-employed people younger than 25 is less than 5%, compared to 20% for employees.

**Chart 4.6<sup>42</sup>**  
***The age distribution of the self-employed***

Percentage of all employees and of self-employed people in each age bracket. Atlantic Canada, 1991



<sup>42</sup> Source: 1991 Census, Statistics Canada

Only one quarter of the self-employed are younger than 35, compared to almost one half of employees. Clearly, self-employment demands experience as well as enthusiasm.

At the other end of the scale, 18% of the self-employed are 55 or older, compared to 8% of employees. To put it in another context, while the self-employment rate for all ages is 9.5%, it varies widely between age brackets, from a high of 27% for those aged 65 and over, to a low of 1.7% for those aged 24 and under. At ages 25 to 34, the self-employment rate is 5.5% and at ages 55 to 64, it is 12.6%, an indication of the early retirement trend in large organizations, which forces many into self-employment because they are not ready to stop working.

### ***It Pays to be Self-employed***

The lure of self-employment is at least partly because the self-employed earn more than employees. As Table 4.10 shows, the self-employed averaged an income of \$36,000 in 1991, compared to \$27,000 for employees - or a premium of more than 30%.

The self-employed premium was even greater in 1981, at 32½%, but 1991 was a tough year for the self-employed, who generally take a bigger hit in their incomes during a recession than do employees. This is particularly apparent in incorporated businesses, where the owners' incomes rose only 72% in the decade, compared to 80% for employees. Despite this slower rise, incorporated businesses still earned, on average, almost \$44,000 in 1991, compared to \$27,000 for the workforce as a whole. It is likely that incomes for the self-employed will rise much more rapidly than it will for employees in the next few years, as the recovery takes hold and the self-employed make up for lost ground.

It is notable that, although self-employed women have a larger share of lower-paying unincorporated businesses, their incomes rose faster than that of men during the decade

(104% compared to 85% - in both cases five percentage points higher than for the workforce as a whole).

**Table 4.10<sup>43</sup>**  
***It pays to be self-employed***

Average incomes in 1981 and 1991 for employees and the self-employed, by gender and corporate status. Canada.

	Average Income		Increase
	1991	1981	
By corporate status			
Self-employed	\$35,926	\$20,182	78.0%
Incorporated	\$43,573	\$25,277	72.4%
Unincorporated	\$31,986	\$18,014	77.6%
Employees	\$26,542	\$14,717	80.3%
Total workforce	\$27,430	\$15,225	80.2%
By gender			
Males	\$33,440	\$18,607	79.7%
Females	\$20,190	\$10,127	99.4%
By gender for the self-employed			
Self-employed males	\$41,012	\$22,202	84.7%
Self-employed females	\$22,851	\$11,187	104.3%

The variances in income are not purely a function of corporate status, obviously. Education has a lot to do with it. People with post-secondary education earn, on average, 16% more than the average for the workforce in the region, while those with secondary education earn 16% less and those with less than grade 9 earn 20% less. Earnings for the self-employed are similar, although those with post-secondary education earn a little more relative to those with less than grade 9 than is the case with employees.

The biggest variations in this pattern are for incorporated women and unincorporated men. Incorporated women with post-secondary education earn only 7% more than all incorp-

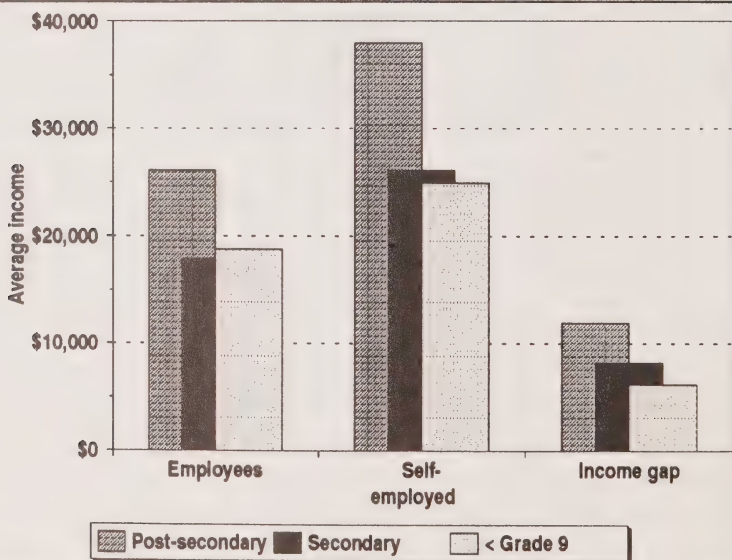
<sup>43</sup> Source: 1981 Census, 1991 Census, Statistics Canada

orated women, while those with less than grade 9 earn 35% less than the average. For unincorporated men, those with secondary education or less follow a pattern similar to that for all self-employed people, but the ones with post-secondary earn 27% more than the average, a reflection, perhaps, of professional doctors, lawyers, accountants and dentists, who are generally unincorporated.

Interestingly, it does not appear to make a big difference if people finish high school, when it comes to incomes, as Chart 4.7 shows.

**Chart 4.7<sup>44</sup>**  
***Post-secondary education raises incomes***

Average income of employees and the self-employed according to the highest level of education reached. Atlantic Canada, 1991



<sup>44</sup> Source: 1991 Census, Statistics Canada

There is relatively little difference in the average earnings of people with secondary education and with less than grade 9 - whether they are self-employed or employees, although the income levels of the self-employed are, of course, higher.

This chart does make it clear, however, that the income premium for the self-employed rises with higher education. This presents a bias against the region, because the self-employed in Atlantic Canada are less well-educated than employees, as Table 4.11 shows.

One-sixth (16%) of the self-employed in the region have less than grade 9 education, compared to 9% for employees; and fewer of the self-employed than employees have post-secondary education (52% compared to 54%). Incorporated people do much better, however, with 60% having post-secondary education.

*Table 4.11* <sup>45</sup>

***Employees in Atlantic Canada are better educated***

Percentage of employees and the self-employed who have attained the levels of education shown (less than grade 9, secondary and post-secondary), with details on the self-employed whose businesses are incorporated and unincorporated. Atlantic Canada, 1991

	Distribution by education level			
	Total	< grade 9	Secondary	Post-secondary
Total workforce	100.0%	9%	36%	54%
Employees	100.0%	9%	37%	54%
Self-employed	100.0%	16%	33%	52%
inc. males	100.0%	10%	29%	61%
inc. females	100.0%	6%	34%	60%
uninc. males	100.0%	21%	34%	45%
uninc females	100.0%	9%	33%	58%

Almost 60% of self-employed women have a post-secondary education, compared to 49% for men. Among employees, 57% of women have post-secondary education com-

<sup>45</sup> Source: 1991 Census, Statistics Canada

pared to 52% of men. The proportion of women with post-secondary education is the same as for men in incorporated businesses, but much higher in unincorporated businesses (58% compared to 45% for unincorporated men). There is evidence that women prepare themselves more extensively than men, so it is perhaps not surprising that they are better educated.

The female income gap is explored more fully in Chart 4.8, which shows that perhaps the most important factor is experience.

*Chart 4.8*<sup>46</sup>

***The gender gap is smaller in incorporated businesses***

Average incomes of males and females, by their corporate status. Atlantic Canada, 1991



Incorporated (and therefore more experienced) women have a smaller income gap than do unincorporated women,

<sup>46</sup> Source: 1991 Census, Statistics Canada

who are, with the exception of professionals, generally newer to self-employment than men. The recession makes these statistics difficult to interpret, however, because of the uneven impact of the recession on incorporated and unincorporated businesses, which makes the income gap bigger for the self-employed than for employees.

Looking at all components of the income gap for women, Table 4.12 shows that it remains a major challenge.

Table 4.12 <sup>47</sup>  
*How incomes are apportioned*

Average income, by corporate status, for full-time and part-time work, by gender, showing the percentage by which female income falls short of male income in each category. Atlantic Canada, 1991

Corporate status	Average income			Wage gap*
	Both sexes	Males	Females	
Full-time				
Employees	\$25,517	\$29,728	\$19,401	35%
Self-employed	\$34,793	\$38,373	\$21,363	44%
incorporated	\$39,218	\$42,576	\$26,492	38%
Unincorporated	\$33,077	\$36,739	\$19,400	47%
Total	\$26,219	\$30,579	\$19,481	36%
Part-time				
Employees	\$9,434	\$10,163	\$9,086	11%
Self-employed	\$16,419	\$21,071	\$11,746	44%
incorporated	\$24,286	\$30,380	\$19,521	36%
Unincorporated	\$15,017	\$19,654	\$10,148	48%
Total	\$9,835	\$11,105	\$9,200	17%

*Note: The wage gap is the difference between incomes for males and females, expressed as a percentage of the males' salaries.*

For the workforce as a whole, women earn 42% less than men. However, that number obviously depends heavily on the mix of females and males in the workforce. Among the self-employed, more women are unincorporated and therefore

<sup>47</sup> Source: 1991 Census, Statistics Canada

earn less, so, while the income gap for all self-employed is 49%, it is slightly more respectable, at 40% for incorporated women than it is for unincorporated women who earn less than half.

Even that bears further study, however, as a higher percentage of women work part-time (30% of self-employed women, compared to 10% of self-employed men).

When part-time is factored in, the income gap for self-employed women is exactly the same for part-time and full-time, although the actual salary levels are about double for full-time. By contrast, for employees, the income gap is 35% for full-time and only 11% for part-time. Since the recession hit income levels harder for the self-employed than for employees, and since people with less experience suffer more, it is reasonable to suppose that the income gap for the self-employed will improve with the recovery. But it still has a long way to go.









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# A MESSAGE FROM

The Honourable Lawrence MacAulay

Secretary of State for  
the Atlantic Canada  
Opportunities Agency



I am pleased to introduce the fourth edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*. Within these pages is the most current and comprehensive picture available of the activities, concerns, conditions and characteristics of the region's growing pool of small- and medium-sized enterprises (SMEs).

ACOA works, in partnership with businesses, business associations, educational institutions, provincial governments and other federal departments, to coordinate a wide variety of activities designed to improve the climate for business growth across Atlantic Canada and to provide resources for improving productivity and competitiveness within the private sector itself.

The region both seeks and depends upon new business opportunities at home and abroad. There are opportunities: at least 75 million consumers – and potential customers for Atlantic firms – reside within 1,000 kilometres of the region's perimeters. At the same time, research indicates that the SME sector in Atlantic Canada is a net job producer, that SMEs are largely responsible for the diversification of the economy into

high-growth and technology-based industries, and that SMEs are characteristically inclined to adapt rapidly to productive change.

Since 1991, with the publication of the inaugural edition, *The State of Small Business and Entrepreneurship in Atlantic Canada* has been a key source of valuable information on the challenges and opportunities facing our region's small businesses. In an information age, information is the currency of change. This document is intended to be useful for educators, business leaders, policymakers and entrepreneurs themselves, in their efforts to better understand the dynamics at work in our economy – the forces and trends that are shaping the future.

I invite you to read on.

A handwritten signature in dark ink, reading "Lawrence MacAulay". The script is fluid and cursive, with a prominent flourish at the end of the last name.

Lawrence MacAulay, P.C., M.P.

# ACKNOWLEDGEMENTS

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This publication forms a key component of ACOA's Entrepreneurship Development Strategy and appreciation is extended to members of the Management Committee for the Pan-Atlantic Entrepreneurship Development Program who approved funding for this project activity.

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# EXECUTIVE SUMMARY

## Growing New Businesses

The 1996 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* analyses the dynamics of growth in overall employment and number of businesses (by firm size) over the 1989-1993 period and presents summarized versions of recent research studies on home-based businesses, entrepreneurship among Francophones, young entrepreneurs, and entrepreneurship and education. It adds to the knowledge base on small business and entrepreneurship needs and issues established in the three previous editions of this report.

During much of the 1989-1993 period, Canada experienced an economic downturn. While Atlantic Canada was certainly not immune to the recession, the region created new firms at a rate disproportionate to its size, outstripping the performance of the national economy. In fact, the region managed to increase the total number of businesses by approximately one percent per year. This compares favourably with the national performance which remained in a relatively stable position.

By the end of 1993, there were over 926,000 employer-firms in Canada and approximately 90,000 in the Atlantic region (this includes public administration). The vast majority of these were very small firms. By the end of 1993, over 75% of all firms in Atlantic Canada had fewer than five employees; 89.4% had fewer than 20 employees and 95.2% had fewer than 100 employees.

From 1990-1993, firms with fewer than five employees were responsible for the total increase in the number of firms in the region, experienced the highest number of entrants and exits,

and the highest percentage increase in number of firms (5.1%) in any size category. There was virtually no change in the number of firms with more than one hundred employees. The average annual rate of new business entries over the four-year period was 20.2% while the average annual exit rate was 19.2%. These rates for Canada were both 15.5% (thus no net gain). This reflects a considerable amount of turbulence within the small and medium-sized enterprise (SME) sector as relatively high numbers of businesses entering the economy are partially offset by high numbers exiting, especially in the smallest firms (under 5 employees). However, the base of firms continues to grow as evidenced by more recent data that between 1993 and 1995, the net number of businesses increased by 4.1% in Nova Scotia, 6.1% in New Brunswick, 5.3% in Prince Edward Island and 0.9% in Newfoundland and Labrador. This compares to a national increase of 4.3%. There are in excess of 17,000 new firm entries on an annual basis. The high entry rate, coupled with a high exit rate also means that the average firm age is decreasing. In 1993, Atlantic Canadian firms had an average age of 5.2 years compared to 6.5 years for Canada.

Growth in overall number of firms varies by sector. The strongest growth was in Personal and Business Services and in Community Services. The highest entry rates were in Primary Industries (21.1%), Accommodation and Food (21.0%) and Business Services (20.8%). Among the highest exit rates were businesses in Primary Industries (26.1%), Mining (20.0%) and Accommodation and Food (18.5%).

Shrinking firms ("sliders") outnumbered growing firms by approximately four to three; only 4% of all firms grew into the next employment size category over the 1990-1993 period. Again, however, the very small business sector generated the highest number of growing firms. Larger firms, those with over 100 employees, tended to shrink.

## Anatomy of Job Creation

While overall employment levels in Canada declined over the 1990-1993 period, the Atlantic region performed much better than the country as a whole. Employment in Canada declined by 7% compared to 5% in Atlantic Canada. The decline in Atlantic Canada was influenced primarily by the loss of some 30,000 jobs resulting from the closure of the groundfish fishery.

From 1989 to 1993, the small firm share of total employment increased from 38.4% to 41.1%; the SME share increased to 53.5%; the large firm share dropped to 46.4%, a trend which has been occurring over the past ten years. In 1979, large firms accounted for 54% of total employment.

Firms in Atlantic Canada with fewer than five employees were the only significant employment creators over the four-year period, in spite of their volatility (high entry and exit rates). Employment in these micro-firms increased by 22,600 while employment in medium to large firms (>100 employees) decreased by 51,700. Small businesses also led the way out of the recession. Between late 1994 and the end of 1995, firms with fewer than 50 employees created 13,500 of the 17,300 or 78% of the net new jobs in the Atlantic region.

Over the period, about 167,000 gross new jobs were reported through Statistics Canada Employment Dynamics data. Almost three-quarters of these gross new jobs were created by new firm entries - a total of 72,384 new firms contributed 121,900 gross new jobs. The greatest percentage of these new jobs (43%) occurred in firms which started with fewer than five employees. Notwithstanding the jobs lost due to new firms which did not survive the four-year period, the net impact was an additional 99,000 jobs. This was a bright spot in an economy which saw an overall employment decrease of 46,500.

The remainder of the gross new jobs were created by the 4% (3,200) of firms which grew into the next employment size category (41,700 jobs) and the firms (47% of the total) which added employees but did so within the same size category (3,800 jobs). Thus, 4% of existing firms created almost a quarter of total gross new jobs and about 90% of jobs created by existing firms (as opposed to new entries). In addition, the 142 firms which grew rapidly (only 0.16%) created 5,400 jobs, again exclusively in the small firm sector.

Many more jobs were lost by “sliders” or shrinking firms than were created by “growers”, and job losses from exiting firms, especially among larger firms, exceeded job gains from entrants. As a group, firms that existed at the end of 1989 experienced decreases in employment across the board by the end of 1993. Only jobs created by new firms provided relief. About 44% of the firms which existed in 1989 no longer existed by the end of 1993, taking over 113,000 jobs with them (over half of the gross job loss). The 5% of total firms which shrank produced over one-third of the gross job losses.

The dynamic of employment creation and loss varied within industry sectors and by province. The biggest net increases by industry sector were in Transportation, Communications and Utilities (14%), Personal and Business Services (13%) and Community Services (13%). The greatest losses were the Goods-Producing sector (16%) and Wholesale Trade (13%). In terms of provincial comparisons, over 80% of total employment loss in the region occurred in Newfoundland and Labrador and in Nova Scotia. In all four provinces, the micro-firms (under five employees) were net employment generators.

Self-employment in Canada and the Atlantic region also grew substantially over the period from 1989 to 1995. Between 1989 and 1991 self-employment in the Atlantic region increased by

7.7% (reaching 135,000) compared to 6.6% in Canada. After a slight setback in 1992 as a result of the impact of problems related to the fishery, the Atlantic region again outpaced the country as a whole in self-employment growth. Between 1992 and 1995, self-employment in the region grew by almost 13%. In Canada, growth over the same period was only 11%.

## **Home-Based Business**

This edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* reports on two studies related to home-based business. The first is an Atlantic Canada study carried out by The Rural and Small Towns Programme at Mount Allison University. The second is a study by the Economic Recovery Commission of Newfoundland and Labrador. Each study is quite comprehensive, providing a profile of home-based business and addressing the problems and opportunities faced by this sector of economic activity.

Many issues were addressed in these studies but, in general, it can be said that:

- home-based businesses make a significant contribution to household income;
- there are important advantages to locating in the home that are not available to owners of businesses operating from commercial establishments (life style, family care, costs);
- the positive impacts on family life far outweigh the negative;
- while the home is seen by many as an incubation location, a significant percentage of firms remain in the home for long periods of time;
- family members play an important role in home-based enterprise as employees or helpers;

- various forms of technology are being used as aids in operating a business from the home.

While there appears to be a very positive perception of home-based enterprise on the part of the owners, three major problems have been identified:

- lack of planning
- poor regulatory environment
- limited government support

### **Entrepreneurship among Persons with Disabilities**

Because a very high percentage of business owners with disabilities operate from the home, the results of a Nova Scotia study were also included in this chapter.

This study reported on some of the problems faced by disabled persons, although the respondents indicated that their disabilities did not present insurmountable barriers to their work. The problems these individuals faced can be summarized in the specific recommendations that resulted from the findings of the report:

- improve access to training opportunities for entrepreneurs with disabilities;
- develop financial assistance programs targeted to entrepreneurs with disabilities;
- establish a network of entrepreneurs with disabilities to act as mentors.

## **Entrepreneurship among Francophones**

A study conducted by the Conseil économique du Nouveau-Brunswick (CENB) in 1996 represents the only attempt to document and analyze the entrepreneurial phenomenon within the francophone community in the region in the last number of years. The purpose of the CENB study was to better understand Acadian entrepreneurship and to utilize knowledge of the entrepreneurial process among Francophones to further enhance the contribution they make to the economy of Atlantic Canada. More specifically, the study provided valuable information concerning the profile of these entrepreneurs and their ventures, as well as information on the support structures, especially financial support, utilized by francophone entrepreneurs.

As with most entrepreneurs, the need to achieve and to be in control were the primary motivators underlying the decisions of francophone entrepreneurs to establish businesses. The majority of their businesses were incorporated (56%), family-owned (70%), started from scratch (73%), in the service sector (55%), and had annual sales of less than \$500,000 (52%). In addition, a significant proportion (43%) of Acadian entrepreneurs owned more than one business.

Again, much like all entrepreneurs, financing and financial support were significant issues. Although requirements for start-up capital were fairly small, personal guarantees and an over-reliance on debt were the major financing problems faced by Acadian entrepreneurs. Females also experienced the added problem of insufficient collateral. In terms of non-financial support, it appears that francophone entrepreneurs prefer to rely on internal resources. The majority of francophone businesses did not have a board of directors and of those that did, the internal board members, such as spouses, employees and

partners, were considered to be the most valuable. Similarly, a significant percentage (44%) did not utilize any outside marketing support.

Overall, three key issues were identified in order to enhance the growth of Acadian entrepreneurship in the region. First, many entrepreneurs are satisfied with the status quo and resist sharing ownership. As a result, growth-willingness needs to be encouraged and promoted. Second, these firms are confronted with a capital market that appears to be inefficient. There is a need for better access to capital, especially equity, improved venture proposals, more effective investment mechanisms and improved information flow. Finally, there appear to be gaps in the support network and some resistance on the part of entrepreneurs to utilize the support that is available. Mentoring and networking can be used much more effectively to support the start-up and growth of firms owned by francophone entrepreneurs.

## **Entrepreneurship and Youth**

To date, very little research has been undertaken to document and analyze the needs of young people with respect to starting and growing small businesses. As a result, in 1995 ACOA undertook an exploratory study based on surveys of existing young entrepreneurs, young people who want to become entrepreneurs, and a number of interviews with representatives of the banking community and small business support organizations. In addition to information on support programs, the ACOA report provided some useful insights into the profile of young entrepreneurs and their businesses, their motivations for establishing ventures and the barriers they faced at the start-up and growth stages of their businesses.

These young entrepreneurs were approximately 22 years old at start-up, were well educated and had almost five years of work experience in small private firms before going into business for themselves. In addition, approximately 40% had established more than one business and these multi-firm owners had created more employment and generated greater revenues per firm than their single-firm counterparts.

The desire for independence and the need for personal accomplishment were the primary factors cited by young people for pursuing an entrepreneurial career strategy. Interestingly, the lack of job opportunities was not cited as a significant influencing factor. Parental influence was an important factor with young people, especially the established entrepreneurs, 43% of whom had self-employed parents.

Access to financing was the most significant barrier faced by young entrepreneurs. Personal resources and various government departments and agencies represented the primary sources of capital for young entrepreneurs. The majority of young entrepreneurs relied primarily on themselves and their close personal networks to overcome various obstacles. This has significant implications for the development and delivery of various support programs targeted towards young entrepreneurs.

Overall, while it is generally acknowledged that much has been done in recent years to encourage an entrepreneurial spirit in youth and to support their efforts to start businesses, the number and the proportion of young people interested in entrepreneurship and self-employment still lags well behind the general population. As a result, there is a significant opportunity associated with encouraging young people to consider an entrepreneurial career. While efforts in this area have improved, much more can and should be done. In

particular, access to capital and other support must be improved and young people must be encouraged to take full advantage of the support structure. This will require innovative and collaborative programming tailored specifically to the needs of young entrepreneurs.

## **Entrepreneurship and Education**

The years between 1990 and 1996 saw major efforts to refocus the education system at all levels toward the encouragement of entrepreneurship. The basis of much of this effort, especially at the secondary level, was the completion in 1989 of the *Projet Entrepreneurship Project (PEP)*. This report examined the degree to which grade 12 students were exposed to entrepreneurial concepts during their twelve years of schooling and recommended modifications to enhance the development of an entrepreneurial culture in the region. Following its release, all four Atlantic provinces undertook initiatives designed to introduce entrepreneurship education at various grade levels.

The first of these initiatives focused on the high school system and led to dramatic increases in the number of enterprise or entrepreneurship courses available to students throughout the region. Students can now learn more about business through a variety of delivery methods including in-class presentations and lectures, guest speakers drawn from the business community, analysis of locally-based case materials, and the completion of entrepreneurial projects. This exposure enables the students to increase personal networks both inside and outside the school environment, to become more aware of the role of business and business owners in their communities, and to learn more about the economy of the region.

In order to measure the short-term impact of these efforts to inculcate entrepreneurial knowledge and skills, the Université de

Moncton followed up the original PEP study in 1995 with a survey of grade 12 students' attitudes toward entrepreneurship and compared the results with the 1989 study. Overall the 1995 students exhibited similar characteristics to those of the 1989 group. There was, however, evidence that the 1995 students were provided with more opportunities to develop the qualities of entrepreneurs and that exposure to the world of business had increased as did social contacts with entrepreneurs. These students also had a more positive perception of business people and the role of business, particularly small business, in the community. About one quarter of the students surveyed in 1995 expressed high intentions to own their own business someday.

The report revealed a number of differences between anglophone and francophone students, males and females, and between provinces. Additional analysis included a comparison of the intent to become an entrepreneur with other survey variables. The best predictors of entrepreneurial intent were personal competencies, knowledge, and skills, which were influenced by exposure to the world of business, social contacts with entrepreneurs, and socioeconomic factors.

There has also been an impressive growth in the number of entrepreneurship programs offered at post-secondary institutions in the region. Twenty-nine of thirty respondents to a survey conducted by Memorial University's P.J. Gardiner Institute for Small Business Studies reported that entrepreneurship courses played a significant role in their curricula. Over one half of the programs were introduced during the 1990s, mainly in response to an increase in student interest and a need perceived by the institutions for this type of education. Twelve of the institutions also indicated that they offered some type of outreach entrepreneurship education program to non-traditional learners.



# BACKGROUND AND INTRODUCTION

As background to this report, it is important to have an understanding of the Atlantic region economy, in particular its demographics, economic circumstances and future outlook.

## **The Atlantic Economy in Perspective**

The four provinces in Atlantic Canada cover 195,000 square miles of land or 5% of the area of Canada. As of January 1, 1996, 2.4 million people lived in the region or 8.1% of the Canadian total. Growth in the Atlantic Canadian population has been much slower than the national average. While the national population grew by 49.7% during the 30-year period between 1961 and 1991, the population of Atlantic Canada increased by only 22.4%. Factors contributing to this include the tendencies of Atlantic Canadians to migrate to more prosperous parts of Canada and of immigrants to settle in larger provinces. The small population base and resulting small domestic market have been major impediments to enhancing economic development.

People are more likely to live in rural areas or small towns in Atlantic Canada (45% of the population) than in Canada as a whole (25% live in rural areas). Nova Scotia has Atlantic Canada's largest urban agglomeration, the Halifax metro area, whose population of about 300,000 is one-third of the province's total. Other large centres (over 100,000 people each) are St. John's, Newfoundland and Saint John and Moncton, New Brunswick. Since only a portion of the region's population is located in large metropolitan areas, concentrations of population required to sustain a large and diversified set of economic activities are lacking.

Atlantic Canada developed a dependency on resource industries early in its history and continues to rely on fishing, mining, forestry and agriculture, more than other parts of Canada. The region's dependency on resources has led to the establishment of many small communities in isolated areas. In Atlantic Canada, 856 communities or 96% out of a total of 892 have a population of less than 10,000. In 1991, 349 communities could be classified as single industry communities, where one industry accounts for 25% or more of the total labour force. Almost all of these communities are reliant on the resource sectors for their employment. In many of these communities, the resource sectors, both primary and processing, account for almost all of the non-government employment. Employment in these communities has become much more vulnerable, due not only to resource depletion but also mechanization.

### **Economic Circumstances**

The performance of the economy of Atlantic Canada has been influenced by a number of key demographic trends, such as slow population growth, few large urban centres and a significant number of widely-dispersed small communities. In addition, the dependence on natural resources for employment has led to the seasonal nature of the economy. Atlantic Canada's economy is much more sensitive to seasonal swings in employment than the rest of the country.

The Gross Domestic Product (GDP) of the region was \$47.1 billion in 1995 or 6.0% of the Canadian total. The goods-producing industries accounted for 27.5% of the region's economic output in 1995, while the service-producing industries accounted for the remaining 72.5%.

Natural resources in Atlantic Canada continue to provide the foundation for the region's economy. These industries and their associated processing activities accounted for 44% of output in the goods-producing industries in Atlantic Canada during 1995. Resource-based industries accounted for 12% of Atlantic Canada's total real Gross Domestic Product in 1995 and 13% of the region's total employment. In addition, these industries indirectly generate significant economic spin-offs in the rest of the economy through the intermediate purchase of goods and services.

Exports have largely underpinned economic growth. The value of exports was equal to 22% of the region's GDP in 1995. Major commodity exports include wood pulp, newsprint, coated paper, lumber, fish products, potatoes, gasoline and fuel oil, iron ore, lead, zinc, potash and tires. Exports to the United States represent over two-thirds of total foreign exports. Other major markets include Western Europe and Japan.

The region's exports are dominated by natural resource products. Total foreign exports from Atlantic Canada amounted to \$10.5 billion in 1995, of which \$6.9 billion or 66% were natural resource products. The resource industries are expected to continue to stimulate economic activity in the region. New mineral discoveries, offshore energy development, aquaculture and ocean industries all represent continued utilization of the region's natural resources.

Over the last 20 years, economic growth in the Atlantic provinces lagged that of the nation, with real GDP increasing at an annual average rate of 2.1%, compared with 2.7% for Canada as a whole. During the late 1980s and early 1990s, Atlantic Canada has been slowly adjusting to globally competitive market conditions and rapid technological change, while at the same time, experiencing downsizing in the public

sector and restructuring in the resource industries. The recovery from the 1990-91 recession was led by strong export markets; however, consumer markets have been soft and job growth weak.

The Atlantic economy has begun to transform itself, with emerging growth areas being found, not only in knowledge-based industries, but in the traditional industries as well. In Newfoundland, a number of high-growth industries, such as information technologies, aquaculture and adventure tourism are becoming increasingly important in the diversification of the economy. In Prince Edward Island, potential growth opportunities have been identified in food processing and research, tourism and the service-sector. Health care services, computer-software manufacturers, marine-related instrumentation and biotechnology are a few of the key growth industries in Nova Scotia that are being developed from the knowledge base that resides in the province. New Brunswick continues to diversify its economy, with the establishment of several call centres by major national and international companies.

Despite the recent growth among the various traditional sectors and diversification of the economy into new areas, there are major challenges that need to be addressed to reduce regional disparity. Some improvement has taken place; however, Atlantic Canada's earned income per capita is only at 75% of the national level and the region's unemployment rate is still almost four percentage points higher than the national rate (13.4% compared to 9.5%). Labour market participation rates are below the national level (58% versus 65% nationally) and the self-employment rate is two percentage points below the national average (13.4% compared to 15.5%). Low productivity levels remain a problem with improvements being hindered by the slower rate of advanced technology adoption,

low levels of research and development and a less educated workforce.

## **Current Situation**

The economy of Atlantic Canada experienced weak economic conditions over the first half of this year. Average monthly employment during the first six months of 1996 was basically unchanged from year ago levels. Employment was up 1.3% for Canada as a whole for the same period. Modest employment growth in the three Maritime provinces was offset by job losses in Newfoundland. Employment fell by 11,000 in Newfoundland during the first half of the year, with losses concentrated in the service industries.

Reflecting the weak job market was the 1.5% gain in labour income in Atlantic Canada during the first quarter of the year. The unemployment rate averaged 14.6% during the first six months of the year, down slightly from the comparable 1995 level of 14.9%. The average participation rate fell slightly from 57.4% to 56.9% during this period.

With the slowdown in sales of forestry products, industrial goods and machinery and equipment, export growth has been modest so far this year. During the first four months of 1996, the value of foreign exports in Atlantic Canada increased by 5.3%. Public and private investment is expected to decrease by 2.3% in Atlantic Canada during 1996, mainly due to the winding down of the Hibernia project. Overall, according to the Conference Board of Canada, the Atlantic economy is expected to increase by only 0.7% for 1996, the same rate of growth as 1995. Economic growth of 1.8% is estimated for Canada as a whole.

## **Medium-Term Outlook, 1996-2000**

Over the medium term, the economies of both Canada and the United States are forecast to experience moderate growth. Over the 1996-2000 period, economic growth in Atlantic Canada is forecast to average 2.1%, slightly lower than the 2.6% rate of increase predicted for Canada as a whole. Employment in the region is forecast to increase at an average rate of only 1.3%, compared with a national rate of 2.2%.

Since Atlantic Canada's resource industries represent 44% of the region's goods-producing output and its public sector represents 40% of the region's service output, the performance of these two sectors determines the overall pace of economic expansion. Several major projects in the resource sector are expected to be undertaken over this period; however, this activity will be partially offset by government restraint.

In addition, Atlantic Canada is expected to register very weak population growth over the next five years, averaging just 0.2% compared with 1.1% for Canada as a whole. Slower population growth coming from continued net out-migration will dampen economic activity and depress job growth.

## **The 1996 Report**

This background discussion serves as a backdrop for the 1996 *State of Small Business and Entrepreneurship in Atlantic Canada*. Previous editions have documented the contribution of small firms and entrepreneurship to economic development and growth and have profiled research in the region related to such themes as female entrepreneurship, small business financing and entrepreneurship education. The current edition extends the analyses of growing small businesses (chapter 1) and the anatomy of job creation (chapter 2), summarizes recent

contributions to the empirical knowledge base in the areas of home-based business (chapter 3), entrepreneurship among francophones (chapter 4) and entrepreneurship and youth (chapter 5), and updates the research effort in the area of entrepreneurship education (chapter 6).

Chapters 1 and 2 are based largely on Statistics Canada data and provide the specifics of firm dynamics and employment dynamics for the period from 1990-1993 with comparisons to previous periods where appropriate.

The theme chapters are based on current studies and are intended to get behind the broad-based statistical data in an effort to understand components of the economy that underlie the entrepreneurial activity that so clearly contributes to the economic strength of the Atlantic Region. The better these components are understood, the better governments and other private sector and quasi-government partners can design and implement programs that have a positive impact on employment, income and the general economic and social well-being of the region.



# CHAPTER 1

## GROWING SMALL BUSINESSES

The 1994 *State of Small Business and Entrepreneurship in Atlantic Canada* identified entrepreneurship as the main engine of growth in the Atlantic region and presented statistical data to support that claim. Economic statistics for the period 1990-1993 continued to demonstrate the importance of small firms to the region, and, in fact, to the nation. There were, however, some indications that the rate of increase in the number of firms generated in previous time periods might be slowing. Analysis of the dynamics of small business entries and exits reveals that the region experienced a decline in the rate at which businesses were being started and a relatively high rate at which businesses were exiting the economy. The number of new firms entering the region's economy on an annual basis has decreased each year since 1990; however, in 1993, this was still in excess of 17,000 business entries.

This chapter contains a four-year analysis of data derived from *Statistics Canada*<sup>1</sup>, focusing on business entries and exits. In reviewing this material, however, it must be kept in mind that both the region and the nation were in the throes of a recession for much of the 1990-93 period, and that the statistics will reflect that fact. Since that period, there has been a gradual improvement in the economy, and one would expect a

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<sup>1</sup> Data in this chapter, unless otherwise stated were sourced from Employment Dynamics, Business Size and Life Status, Small Business and Special Surveys Division, Statistics Canada and from a special run of Employment Dynamics. There was a structural change in the Statistics Canada database in 1989 and, currently, data prior to 1989 are no longer comparable with data after 1989. The structural change consists of a change from the 1970 SIC system to the 1980 SIC system as well as a change from Business Register Division's BRID system of business identification to the current CFDB system (Central Frame Data Base).

corresponding improvement in the growth of new firms. In fact, the Atlantic provinces outperformed the remainder of the country in firm creation from 1990 to 1993, good news in a region which depends heavily on entrepreneurship as a vehicle for growth.

### Distribution of Firms by Industry Sector

Despite the recession experienced throughout most of the early 1990s, the number of firms operating in Canada remained relatively stable between 1989 and 1993. The economy started the period with 926,653 firms and ended with 926,935. As Table 1.1 indicates, however, there were variations among the industry sectors. The most significant increase in the number

**Table 1.1**  
**Distribution of Firms by Industry Sector, Canada**  
**1989-1993**

Industry sector	# of firms 1989	Share of total	# of firms 1993	Share of total	Net change in # of firms
		%		%	
Goods-producing	245,711	26.5	237,219	25.6	-8,492
Trade	196,200	21.2	197,671	21.3	+1,471
Market Services	364,343	39.3	390,023	42.1	+25,680
Funded Sector	68,322	7.4	77,925	8.4	+9,603
Unclassified	52,077	5.6	24,097	2.6	-27,980
All INDUSTRIES	926,653	100.0	926,935	100.0	+282

Source: Employment Dynamics

of businesses, 25,680, occurred in market services<sup>2</sup>; the funded sector<sup>3</sup> contributed a net increase of 9,603 firms. Almost 8,500 firms were lost in the goods-producing sector between 1989 and 1993. Unfortunately, it is difficult to interpret these numbers in light of a huge shift of firms out of the “unclassified” category, which resulted from the changes to the Statistics Canada database.

In Atlantic Canada, and in each of the four provinces, there were net gains in the total number of firms during the four-year period. Tables 1.2 and 1.3 show that these increases occurred

**Table 1.2**  
**Distribution of Firms by Industry Sector**  
**Atlantic Canada**  
**1989-1993**

Industry sector	# of firms 1989	Share of total	# of firms 1993	Share of total	Net change in # of firms
		%		%	
Goods-producing	23,577	27.3	25,429	28.6	+1,852
Trade	18,132	21.0	18,910	21.2	+ 778
Market Services	33,721	39.1	36,494	41.0	+2,773
Funded Sector	5,847	6.8	6,485	7.3	+ 638
Unclassified	5,031	5.8	1,718	1.9	- 3,313
All INDUSTRIES	86,308	100.0	89,036	100.0	+2,728

Source: Employment Dynamics

<sup>2</sup> The market services sector consists of Transportation, Communications and Utilities, Finance, Insurance and Real Estate, and Personal and Business Services.

<sup>3</sup> The funded sector consists of Community Services (education, health and welfare) and Public Administration.

**Table 1.3**  
**Net Change in Number of Firms**  
**by Province and by Industry Sector**  
**1989-1993**

Industry sector	NF	NS	NB	PEI	Total
Goods-producing	860	328	529	135	1,852
Trade	372	243	109	54	778
Market Services	1,142	1,116	505	10	2,773
Funded Sector	593	- 365	287	123	638
Unclassified	-1,110	-1,022	-1,012	- 169	-3,313
All Industries	1,857	300	418	153	2,728
SIC Industries	2,967	1,322	1,430	322	6,041
% of 1989 SIC Firms	15.3	4.4	5.6	4.8	7.4

Source: Employment Dynamics

in every major sector except for the funded sector in Nova Scotia. The total number of firms in the region increased by 2,728 over the period compared to an increase of only 282 for Canada as a whole (including Atlantic Canada). This illustrates that, while Atlantic Canada was certainly not immune to the recession, the region did create firms at a rate disproportionate to its size. The market services sector, the largest of the major sectors, led the way. It is worth noting that this sector tends to be comprised of a relatively large number of small firms.

A surprising fact in view of the well-publicized problems in the region's fishery was that Atlantic Canada's goods-producing sector grew by 1,852 firms. In fact, during the course of this analysis it was found that similar anomalies of increasing number of firms, often coupled with decreasing employment levels,

existed in other sectors of the economy and within firm size categories. Some of these will be commented on later.

## **Entries and Exits**

It is generally agreed that small businesses have high mortality rates during their first years of existence. As a result of this, a growing economy needs a constant supply of new firms which can generate employment and wealth, and which hopefully can “beat the odds” of survival. These new businesses must also replace employment losses in firms which decline over a period. It becomes important then to assess the region’s performance with regard to business entries and exits as an indicator of the dynamics of new firm creation.

In the context of this discussion, “entries” are defined as businesses that enter the region’s economy during a particular period. Entry rates are calculated by dividing the number of entries by the number of firms which existed at the beginning of the period in question. “Exits” are firms that have left the economy in a particular period; exit rates compare exits with the number of firms in existence at the beginning of the particular period. It must be kept in mind that exits are not necessarily failures. In fact, firms of all ages are discontinued for a number of reasons, including mergers, acquisitions, and voluntary closures. In some cases a change in legal status, name change, or change in ownership may also appear as an exit in Statistics Canada reports. Firms may also simply become inactive for a period of time and reappear later as a contributor to the economy.

**Table 1.4**  
**Average Entry and Exit Rates for Businesses**  
**Canada, Atlantic Canada and Provinces**  
**1990-1993**

Province	Entry rate (%)	Exit rate (%)	Net gain in # of businesses (%)	Average life expectancy (years)
NF	25.8	23.8	2.0	4.2
PEI	19.8	18.4	1.4	5.4
NS	18.6	18.0	0.6	5.6
NB	17.6	17.2	0.4	5.8
ATL CAN	20.2	19.2	1.0	5.2
CAN	15.5	15.5	-	6.5

Source: Special run of Employment Dynamics

Table 1.4 provides a summary of entry and exit rates for each province, for the region, and nationally for the 1990-1993 period. The table indicates that, despite the relatively low economic growth experienced throughout the region during that period, the average annual entry rate for new businesses remained relatively high at 20.2%. This compares very favourably with the national entry rate of 15.5%.

Table 1.5, which presents annual entry rates for each province, for the region, and nationally, indicates a slow-down in the region's start-up rate from 21.9% to 19.1% over the four-year period. This parallels the national experience, which saw a decline in entry rates from 17.2% to 14.7% over the same period.

Table 1.5 also demonstrates that the four-year decline in start-up rates was experienced by all provinces. Newfoundland and Labrador continued to lead the region in business start-up performance with an average annual growth rate of 25.8%, but its decline was also the most precipitous, from 28.8% to 24.3%, perhaps because of the impact of the closure of the northern cod fishery on rural areas of the province. The other three provinces lagged somewhat. Nova Scotia's rate of decline was lowest, from 19.2% to 18.0%. Although New Brunswick experienced the lowest start-up rate, an average of 17.6%, this was still commendable when compared with the 15.5% experienced nationally.

**Table 1.5**  
**Trends in Business Entry Rates<sup>4</sup>**  
**Canada, Atlantic Canada and Provinces**  
**1990-1993**  
**(%)**

Region	1990	1991	1992	1993	Average
NF	28.8	25.8	24.3	24.3	25.8
PEI	21.2	21.7	18.3	17.8	19.8
NS	19.2	19.2	18.2	18.0	18.6
NB	19.5	18.0	16.6	16.5	17.6
ATL CAN	21.9	20.7	19.3	19.1	20.2
CAN	17.2	15.5	14.7	14.7	15.5

Source: Special run of Employment Dynamics

As might be expected in light of the economic climate, the region experienced high business exit rates between 1990 and 1993. Table 1.4 indicates that the Atlantic average annual exit rate of 19.2% was much higher than the national average of

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<sup>4</sup> Annual start-up rates expressed as a percentage of the total firms in existence during the year.

15.5%. However, the region generated a net increase in firms of 1.0%, whereas the national entry and exit rates were about equal. Newfoundland and Labrador had the highest exit rate, at 23.8%, but managed to retain a net gain in businesses of 2.0%, also the region's highest. Given the low average life expectancy of firms in that province, however, this net increase was certainly necessary. The other three Atlantic provinces were much less volatile, experiencing both lower entry and exit rates. Despite having the lowest exit rate in the region, New Brunswick generated the lowest net gain in new firms, at 0.4%. Again, however, each of the provinces outperformed the nation, which essentially had no net entries.

Although the data presented here might appear to indicate an unusually high turnover in firms, it must be remembered that small firm entries and exits are always somewhat turbulent, and that this turbulence was magnified by the recession which the region experienced during the period under review. It is to the region's credit that such a positive result was attained under these circumstances.

As with business start-ups, there were wide variations among the provinces with regard to business exits. Table 1.6 provides an overview of exit activity by province, together with a comparison of regional and national rates. Once again, the highest rate belonged to Newfoundland and Labrador, which actually experienced two years of decline prior to the sharp increase in 1993. The most noteworthy increase was Prince Edward Island, which increased from just under 17% in 1990 to nearly 21% in 1992 before dropping to about 19.5% in 1993. New Brunswick, despite experiencing a decline from just under 19% in 1990 to just over 16% in 1993, also had the lowest retention rate in the region, reflecting its relatively low entry rate. By comparison, the national rate decreased from just over 16% to just under 15% over the same period.

**Table 1.6**  
**Trends in Business Exit Rates<sup>5</sup>**  
**Canada, Atlantic Canada and Provinces**  
**1990-1993**  
**(%)**

Region	1990	1991	1992	1993	Average
NF	24.6	23.4	22.4	24.6	23.8
PEI	16.9	16.7	20.8	19.3	18.4
NS	17.8	18.2	18.2	18.0	18.0
NB	18.8	17.8	16.1	16.2	17.2
ATL CAN	19.7	19.3	18.7	19.1	19.2
CAN	16.2	16.4	14.6	14.9	15.5

Source: Special run of Employment Dynamics

The net effect of this activity was that, although entry rates have maintained a level in the range of 20%, an increase in exit rates has restricted the net growth in firms. Table 1.7 provides an analysis of the net growth in businesses by year. Net gains in the number of businesses declined steadily from 2.13% in 1990 to a net decrease in 1993. While this was still better than the national performance, it should not be considered acceptable in a region which must rely heavily on new businesses to revive its lagging economy.

More recent but less complete data suggest that the Atlantic economy is slowly beginning to improve. Between 1993-1995, the number of businesses increased by 4.1% in Nova Scotia, 6.1% in New Brunswick, 5.3% in Prince Edward Island and 0.9% in Newfoundland. This compares to a national average of 4.3%.

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<sup>5</sup> Annual business exits expressed as a percentage of total firms in existence during the year.

**Table 1.7<sup>6</sup>**  
**The Dynamics of a High Turnover**  
**Atlantic Canada**  
**1984-1993**

Year	Total # of firms the year before	Entries this year	Exits identified this year	Net gain	%
1984	69,126	13,895	10,199	3,696	5.35
1985	72,822	14,244	10,126	4,118	5.65
1986	76,940	14,867	10,982	3,885	5.05
1987	80,825	15,796	12,559	3,237	4.00
1988	84,062	16,523	13,974	2,549	3.03
1989	86,611	17,060	13,433	3,627	4.19
1990	88,197	19,280	17,397	1,883	2.13
1991	89,490	18,532	17,239	1,293	1.44
1992	90,053	17,369	16,806	563	0.63
1993	90,616	17,203	17,255	-22	-0.02

Source: Special run of Employment Dynamics

In order to identify areas of strength and weakness within the region it is useful to examine entries, exits and net retentions within various industry sectors. This information is presented in Table 1.8.

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<sup>6</sup> Note: Statistics Canada has modified the manner in which the data presented in Table 1.7 is compiled. Readers are cautioned that direct comparisons between pre-1990 and post-1989 data may not be possible.

**Table 1.8**  
**Entries and Exits by Industry<sup>7</sup>**  
**Atlantic Canada**  
**1990-1993**

Industry sector	Total entries	Total exits	Entry rate	Exit rate	Net gain
	#		%		
Primary	10,297	12,710	21.1	26.1	-5.0
Mining	191	211	18.1	20.0	-1.9
Manuf.	3,096	3,012	16.9	16.3	0.6
Const.	8,081	7,193	17.0	15.2	1.8
Wholesale	3,044	2,707	15.3	13.6	1.7
Retail	9,353	8,912	16.8	16.0	0.8
T, C & U	3,298	2,930	19.1	17.0	2.1
FIRE	2,319	2,155	15.1	14.0	1.1
P & B Services					
<i>Business</i>	3,823	2,963	20.8	16.1	4.7
<i>Accom./food</i>	4,566	4,006	21.0	18.5	2.5
<i>Misc.</i>	19,418	18,345	26.9	25.4	1.5
Community Services	4,541	3,157	18.2	12.6	5.6
Public Admin	357	366	13.6	13.9	-0.3
<b>TOTAL</b>	<b>72,384</b>	<b>68,667</b>	<b>20.2</b>	<b>19.2</b>	<b>1.0</b>

Source: Employment Dynamics

Note: Abbreviations - Transportation, Communications and Utilities (T, C & U), Finance, Insurance and Real Estate (FIRE) and Personal and Business Services (P & B Services). Community Services includes Education and Health and Welfare.

<sup>7</sup> Entry and exit rates are based on the number of firms in existence at the end of 1989.

It can be readily seen that traditionally strong industrial sectors in the region, such as the primary sector, have experienced net decreases in the number of firms. Firms entering the sector did so at a relatively high annual rate of 21.1%. On the other hand, exits from this sector took place at an even higher rate, 26.1%, resulting in a net decrease of 5.0%. Although not as dramatic, the performance of another traditional area of strength, mining, resulted in annual rates of 18.1% for entries and 20.0% for exits, an overall decrease of 1.9%. With a net increase of 1.8%, the construction sector remained flat despite the impact of megaprojects, such as construction of the Hibernia project, which may have been offset by an overall decrease in other types of construction.

Reflecting trends in the remainder of the country, the areas of greatest strength in the region were the service sectors. Community services, at 5.6%, provided the greatest area of growth, followed closely by business services. These sectors were also relatively stable, particularly the community services sector with only a 12.6% exit rate. Accommodations and food also turned in a relatively strong performance, further demonstrating the importance of the tourism industry to the region.

## **Business Dynamics**

The previous section of this chapter examined the pattern of business entries and exits, revealing that large numbers of new firms are needed each year to provide the economy with momentum, as well as to replace firms which leave the economy for one reason or another. This section will investigate the growth patterns of firms in existence at the end of 1989 as well as firms established after that time (Table 1.9).

**Table 1.9**  
**The Dynamics of Firms in Atlantic Canada**  
**1990-1993**  
**(000s)**

Status <sup>8</sup>	<5 emp.	5<20 emp.	20<50 emp.	50<100 emp.	100<500 emp.	500+ emp.	Total firms
Firms in existence at the end of 1989	63.2	13.4	3.7	1.6	2.4	2.0	86.3

**FIRMS COMING INTO THE SIZE CATEGORY**

New entrants	61.9	4.7	2.1	1.2	1.6	0.9	72.4
Inflows	2.8	2.8	0.9	0.5	0.4	0.1	7.5
Total	64.7	7.5	3.0	1.7	2.0	1.0	79.9

**FIRMS LEAVING THE SIZE CATEGORY**

Exits of 1989 firms	32.1	3.1	1.0	0.6	0.8	0.5	38.1
Growers	2.1	0.6	0.3	0.1	0.1	NA	3.2
Sliders	NA	2.7	0.8	0.3	0.3	0.2	4.3
Exits of post-1989 firms	25.4	2.3	1.1	0.6	0.8	0.4	30.6
Total	59.6	8.7	3.2	1.6	2.0	1.1	76.2

Net change	5.1	-1.2	-0.2	0.1	-	-0.1	3.7
Firms in existence at the end of 1993	68.3	12.2	3.5	1.7	2.4	1.9	90.0
% of all firms	75.9	13.5	3.9	1.9	2.7	2.1	100.0

Source: Special run of Employment Dynamics

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<sup>8</sup> Firms are categorized by employment size.

The analysis looks at the growth in number of firms by employment size category. A small firm is defined as one with fewer than 100 employees, a medium-sized firm is one with 100-499 employees, and a large firm is one with 500 or more employees.

As one reviews Table 1.9, several patterns emerge. First, only a relatively small number of firms grew into a larger employment size category over the period. Second, most firms remained stable, or, at best, experienced modest increases or decreases in terms of growth. Third, there were firms which experienced steady decline, sometimes to a point where it became impossible to continue.

In order to understand the implications of these patterns, an examination of the movement of firms between employment size categories is useful. Before doing that, however, some clarification of the terminology is necessary. "Entrants" are defined as the business start-ups that entered the size category during the four-year period under review. "Exits" are firms leaving the economy during that period. "Growers" are firms which existed in a particular size category at the end of 1989 and which grew sufficiently to move from that employment size category to a larger one. "Sliders," on the other hand, are firms which decreased in size over that period to a point where they moved to a smaller size category. It follows, therefore, that the smallest size category experienced no sliders, as there was no where for them to go except out of the economy. Similarly, there were no growers from the largest size category. "Inflows" are the net numbers of growers and sliders that moved into a category.

Not surprisingly, the most volatile size category was the smallest; those firms with fewer than five employees. This category experienced by far the highest number of entrants and

exits, the highest percent increase in number of firms (5.1%) and was responsible for the total increase in number of firms in the region. The number of medium-sized businesses remained the same at 2,400 and the number of large firms decreased to 1,900. What was surprising, however, was that relatively few of these new firms grew to a point where they entered a larger size category, thereby suggesting that most surviving small firms remained relatively small. There may be a number of reasons for this. Many small businesses remain small by choice. In addition, smaller businesses tend, as a group, to have restricted access to the human and financial resources necessary for growth. Finally, the recession experienced throughout the region in the early 90s temporarily dampened the growth aspirations of many small firms, a situation that is likely to change as the economy improves.

A further review of Table 1.9 indicates that sliders—firms that are becoming smaller—outnumbered growers in all of the other size categories. Given the relatively poor economic conditions the region experienced during the period, this pattern is understandable. Table 1.9 also reinforces the view of the importance of new business entrants into the economy; as one would expect, the smallest size category generated the most impressive growth in new firms. Despite the surprisingly large numbers of new firms entering the economy in other size categories, relatively high exit rates left an overall net decrease in the number of firms in these size categories. This phenomenon should be examined more closely. It would be expected that larger firms should have access to the resources that would provide greater protection against recessionary periods. The reasons why this did not occur merit investigation.

In conclusion, during 1990-1993, Atlantic Canada once again led the nation in new business entries and in the retention of new firms. By 1993, over three quarters of regional firms had fewer

than five employees, 89.4% had fewer than 20 employees, and 95.2% had fewer than 100 employees. Despite the recession which the region experienced for much of that period, Atlantic Canadians retained sufficient confidence in their region to commit their efforts and, just as importantly, their resources, to building a future in the area. Small businesses were at the forefront of this performance both in new firm creation, and as the next chapter will point out in more detail, in the creation of new employment.

# CHAPTER 2

## ANATOMY OF JOB CREATION

The early 1990s was a period of significant downturn in the Canadian economy, especially during the 1990-1993 period, and the overall impact on employment was considerable. National unemployment rates increased from 8.1% to 11.2% (Table 2.1); bankruptcies increased<sup>9</sup>; both private and public sector employment declined. (See Table 2.2 for employment trends in the public sector.) However, the employment situation improved considerably in 1994 and 1995 and unemployment levels dropped to 9.5%. While Canada and the Atlantic region at least maintained their stock of businesses through the recession, the employment picture looked somewhat different.

**Table 2.1**  
**Unemployment Rates, Canada, Atlantic Canada**  
**1989-1995**

Region	Year						
	1989	1990	1991	1992	1993	1994	1995
CAN	7.5	8.1	10.3	11.3	11.2	10.4	9.5
NF	15.8	17.1	18.4	20.2	20.2	20.4	18.3
PEI	14.1	14.9	16.8	17.7	17.7	17.1	14.7
NS	9.9	10.5	12.0	13.1	14.6	13.3	12.1
NB	12.5	12.1	12.7	12.8	12.6	12.4	11.5

Source: Historical Labour Force Statistics, 1966-1993, Statistics Canada, Cat. No. 71-201 and update

<sup>9</sup> *Small Business Annual Report, 1995*, Canadian Bankers Association, Toronto

**Table 2.2**  
**Changes in Public Sector Employment**  
**Atlantic Canada**  
**1989-1993**

Region	Year				Net change in emp.	
	1990	1991	1992	1993	Actual 1990-93	% chg. 1990-93
NF	44,505	44,500	45,829	43,640	-865	-1.9
PEI	15,102	14,889	14,222	14,187	-915	-6.1
NS	106,689	106,101	103,520	101,743	-4,946	-4.6
NB	75,211	76,329	76,708	77,082	1,871	2.5
ATL CAN	241,507	241,819	239,739	236,652	-4,855	-10.2

Source: Public Sector Employment and Remuneration, 1990-1993, Statistics Canada, Cat. No. 72-209

This chapter is devoted to a discussion of the following dimensions of job creation and employment: job creation and job loss; employment distribution by firm size; employment distribution by industry sector; and self-employment.<sup>10</sup>

## Job Creation and Job Loss

There was significant new firm creation over the 1990-1993 period as indicated in Chapter 1. This was especially true in Atlantic Canada where employment created by new firms went a long way in offsetting employment lost by firms exiting the economy and by firms that downsized. Just as in the 1979-1989

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<sup>10</sup> Data in this chapter, unless otherwise stated were sourced from Employment Dynamics, Business Size and Life Status, Small Business and Special Surveys Division, Statistics Canada. There was a structural change in the Statistics Canada database in 1989 and, currently, data prior to 1989 are no longer comparable with data after 1989. The structural change consists of a change from the 1970 SIC system to the 1980 SIC system as well as a change from Business Register Division's BRID system of business identification to the current CFDB system (Central Frame Data Base).

period, small firms created more jobs and lost less in relative terms than firms in the medium and large size categories.

Table 2.3 presents an overview of the employment gains and losses caused by the movement of firms into and out of the economy, as well as between employment size categories. The overall effect of the general trend toward downsizing and the exiting of firms that existed at the beginning of 1990 resulted in a net decrease of 46,500 jobs. About 44% of the firms that existed at the beginning of the period exited the economy, taking 113,900 jobs with them. An additional 77,200 jobs disappeared as firms grew smaller. This was partially compensated for by the small growth in employment recorded by firms that held their own (3,800 jobs) and, to a larger extent, by firms that managed to grow and create 41,700 new jobs over the period (4% of 1989 firms). This latter group accounted for 24% of total gross new jobs created during the period, and 90% of gross new jobs created by existing firms.

The strongest contributors to gross new jobs are new firm entries. Over the four-year period, some 72,384 new firms created 121,900 gross new jobs, nearly three quarters of the total of 167,400. Many of these firms (30,611) subsequently exited the economy with a resulting loss of some 22,800 jobs. The net increase of 99,000 jobs created by surviving new firms was, however, one of the few bright spots in an economy which saw an overall employment decrease of about 46,500.

Despite the volatility of entries and exits of firms with fewer than five employees, Table 2.4 indicates that this category actually produced the only real increase in employment in the region. Employment created by new entrants (post 1989) with fewer than five employees (52,100 jobs) more than compensated for jobs lost from the high rate of exit and other employment losses due to downsizing within the category. By the end of

1993 there was a net employment gain of 22,600 in the smallest firms. This is a sharp contrast with firms employing more than 500, which experienced a significant net employment decrease of 37,400. By the end of 1993, small firms had maintained their level of employment while medium and large firms (100+ employees) had a net loss of 51,700 jobs.

**Table 2.3<sup>11</sup>**  
**Employment Gains and Losses**  
**Atlantic Canada**  
**1990-1993**

Status	Number of firms	As a % of 1989 firms	Net chg. in emp. 1990-93
		%	(000s)
Total firms end of 1989	86,314	100	-145.6
Job creators:			
Unchanged	40,767	47	3.8
Growers	3,200	4	41.7
Post-1989 entrants	72,384	84	121.9
Total jobs gained			167.4
Job losers:			
Exits of 1989 firms	38,056	44	-113.9
Sliders	4,291	5	- 77.2
Exits of post-1989 entrants	30,611	35	- 22.8
Total jobs lost			-213.9
Net change			- 46.5

Source: Special run of Employment Dynamics

<sup>11</sup> The starting point for data in this section is the firms in existence at the end of 1989. Subsequent measures of employment gains and losses caused by the movement of firms into and out of the economy as well as between size categories are for the period 1990-1993.

Table 2.4 also illustrates that many more jobs were lost by sliders than were created by growers, and job losses from exits, especially among larger firms, exceeded job gains from entrants. As a group, firms that existed at the end of 1989 experienced decreases in employment across the board. Only the jobs created from new firms provided some relief.

**Table 2.4**  
**Employment Gains and Losses by Firm Size**  
**Atlantic Canada**  
**1990-1993**

Status	<5	5-19	20-49	50-99	100-499	500+	Total
	Jobs (000s)						
Employment in firms existing at end of 1989	78.3	120.0	82.3	54.5	116.9	419.7	871.7
Exits of 1989 firms	-25.7	-22.4	-8.7	-8.6	-17.9	-30.6	-113.9
Unchanged	-5.3	0.9	1.4	-0.6	-2.2	9.6	3.8
Growers	12.6	11.2	7.8	3.7	6.4	NA	41.7
Sliders	NA	-17.3	-11.9	-6.1	-9.9	-32.0	-77.2
Net change for 1989 firms	-18.4	-27.6	-11.4	-11.6	-23.6	-53.0	-145.6
Post 1989 entrants	52.1	22.1	12.0	8.0	11.5	16.2	121.9
Exits of post-1989 entrants	-11.1	- 4.3	- 2.5	- 2.1	- 2.2	- 0.6	- 22.8
Employment in firms existing at the end of 1993	100.9	110.2	80.4	48.8	102.6	382.3	825.2
Net change	22.6	- 9.8	- 1.9	- 5.7	-14.3	-37.4	- 46.5

Source: Special run of Employment Dynamics

There were a small number of outstanding performers which contributed greatly to the growth in job creation by existing firms. At the same time, declines in employment in a relatively small number of existing firms accounted for a disproportionately large share of job losses. Table 2.5 illustrates these points quite well. A total of 142 firms, only 0.16% of those in existence at the end of 1989, grew rapidly enough during the period to jump two size

**Table 2.5**  
**Big Achievers and Job Losers**

Net employment gains by Atlantic Canadian firms that grew or declined during 1990-1993 into a size category two or more higher or lower than their 1989 category. Only firms in existence at the end of 1989 were included in this data.

Size of firms in 1989 (# of employees)	Number of firms	As a % of 1989 firms	Net change in employment	As a % of total gains
Achievers:				
<5	53	0.06	1,400	3.0
5-19	37	0.04	2,200	4.8
20-49	50	0.06	1,800	3.9
50-99	2	0.002	0.00	0.00
Total	142	0.16	5,400	11.7
Losers:				
20-49	93	0.11	- 2,300	- 5.0
50-99	53	0.06	- 2,200	- 4.8
100-499	100	0.12	- 5,500	-11.9
500+	13	0.01	- 4,400	- 9.5
Total	259	0.30	-14,400	-31.2

Source: Special run of Employment Dynamics

categories, creating 5,400 new jobs as they did. This growth occurred exclusively in small businesses, again underscoring the potential of these firms to add dramatically to the region's economy. These figures included only firms in existence at the end of 1989; new entrants after that time which conceivably could have enhanced this impressive performance were not included.

At the same time, about 0.3% of firms existing at the end of 1989 were responsible for 31.2% of the net job loss for the period. Firms having fewer than 100 employees accounted for 9.8% of this total. The remaining 21.4% resulted from the downsizing activities of medium and larger size firms in the region.

While the employment picture for the Atlantic region, and generally for the whole country was somewhat bleak over the 1990-93 period, the trend started to reverse itself as the mid 1990s approached. Table 2.6 shows there was significant job creation by firm size between the fourth quarter of 1994 and the end of 1995. Firms with fewer than 50 employees led the recovery in Atlantic Canada, producing 13,500 net jobs in 1995, representing 78% of the total net jobs created.

Notwithstanding the positive impact of small firms on job creation during the period under review, some interesting shifts in the distribution of employment occurred within the various size categories.

**Table 2.6**  
**Job Creation by Firm Size**  
**Oct. 1994 - Dec. 1995**  
**(000s)**

Firm size	CAN	ATL CAN	NF	NS	NB	PEI
0 - 49	161.0	13.5	1.7	3.1	5.4	3.3
50 - 299	38.6	5.0	- 1.4	- 4.2	3.7	0.7
300 +	5.5	1.8	- 1.2	2.0	1.8	2.3
Total	205.1	17.3	- 0.9	1.0	10.9	6.3

Source: Survey of Employment, Payroll and Hours, Statistics Canada

## Employment Distribution by Firm Size<sup>12</sup>

Despite the fact that there was an overall decline in employment over the four-year period, small businesses had a very positive impact on job creation. This is reflected in Canada, the Atlantic region and in each of the Atlantic provinces.

Overall, employment in Canada decreased by 7% (890,000) over the 1989-93 period. Employment in the small business sector (<100 employees) declined by 3% (136,800) over that period, accounting for 15.4% of the total decline in employment (Table 2.7). Employment in very small firms or micro-businesses (<5 employees) on the other hand, increased by 344,800; 35% higher than the 1989 level. This dramatic surge in employment over the 1989-93 period resulted in an increase in the micro-business share of total employment in Canada from 8% to 11.5%. The greatest decline in employment occurred in large firms (500+ employees). Employment in this category

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<sup>12</sup> Data in this section and the subsequent section on employment distribution by industry sector are for the 1989-1993 period and measure the change in employment distribution from 1989 to 1993

decreased by 9.2% over the four-year period, or 58% (517,900) of the total employment loss in the country. The second highest decline (235,300), 26.4% of the total, was in medium-sized firms (100-499).

**Table 2.7**  
**Employment Patterns by Size of Firm, Canada**  
**1989-1993**

Firm size (# of employees)	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993	
	(000s)	%	(000s)	%	(000s)	%
< 5	1,000.3	8.0	1,345.1	11.5	344.9	35
5-19	1,690.9	13.5	1,533.4	13.2	-157.5	-9
20-49	1,350.0	10.8	1,154.2	9.9	-195.8	-15
50-99	933.5	7.4	805.2	6.9	-128.3	-14
<b>Small firms</b>	<b>4,974.7</b>	<b>39.7</b>	<b>4,837.9</b>	<b>41.5</b>	<b>-136.8</b>	<b>-3</b>
100-499	1,924.5	15.3	1,689.2	14.5	-235.3	-12
500 or more	5,635.5	45.0	5,117.6	44.0	-517.9	-9
<b>All firms</b>	<b>12,534.7</b>	<b>100.0</b>	<b>11,644.7</b>	<b>100.0</b>	<b>-890.0</b>	<b>-7</b>

Source: Employment Dynamics

The Atlantic region did reasonably well over the 1989-1993 period compared to Canada as a whole (Table 2.8). The region accounted for only 5% of the total decline in employment over the period, even though its share of total employment in Canada was 7%. It was the small business sector that produced employment in the region, adding 5,200 net jobs to the region's economy. The micro-business category was the biggest contributor. This size category increased employment by 22,600, an increase of 29%, and increased its share of the region's total employment from 9% to 12.2%. By the end of 1993 small firm share of total employment was 41.1% while the

large firm share had declined to 46.4%. This represents a continuation of the trend reported in the previous ten-year period (1979-1989) which indicated that small firm share of employment had increased from 31.5% to 38.4%. The large firm share had declined from 53.9% to 48.1% over the same period. Increases in the share of total employment for the small firm category were consistent in each of the provinces.

**Table 2.8**  
**Employment Patterns by Size of Firm, Atlantic Canada**  
**1989-1993**

Firm size (# of employees)	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993	
	(000s)	%	(000s)	%	(000s)	%
< 5	78.3	9.0	100.9	12.2	22.6	29
5-19	120.0	13.8	110.2	13.3	-9.8	-8
20-49	82.3	9.4	80.4	9.7	-1.9	-2
50-99	54.5	6.2	48.8	5.9	-5.7	-10
<b>Small firms</b>	<b>335.1</b>	<b>38.4</b>	<b>340.3</b>	<b>41.1</b>	<b>5.2</b>	<b>2</b>
100-499	116.9	13.4	102.6	12.4	-14.3	-12
500 or more	419.7	48.1	382.3	46.4	-37.4	-9
<b>All firms</b>	<b>871.7</b>	<b>100.0</b>	<b>825.2</b>	<b>100.0</b>	<b>-46.5</b>	<b>-5</b>

Source: Employment Dynamics

There were some significant differences in the employment patterns among the provinces in Atlantic Canada (Tables 2.9 through 2.12). Newfoundland and Labrador and Nova Scotia which represented 61.1% of the region's total population and 63.1% of total employment, accounted for a decrease in employment of 38,000 or 81.7% of the 46,500 net decrease.

As was the case with Canada as a whole, medium and large firms (100+ employees) in Atlantic Canada experienced significant employment decreases caused by closures and downsizing. In fact, employment in these firms declined by 51,700, while the net decrease for the region was 46,500, indicating that small firms (<100 employees), especially micro-firms (<5 employees), had to bear the burden of job creation. Employment in firms with fewer than 100 employees increased by 2% in Atlantic Canada compared to a decline of 3% in Canada as a whole. The increases in the micro-firm category ranged from 25% in Nova Scotia to 35% in Newfoundland and Labrador. In Newfoundland and Labrador and in Prince Edward Island there were also small increases in the 20-49 employee category.

**Table 2.9**  
**Employment Patterns by Size of Firm**  
**Newfoundland and Labrador**  
**1989-1993**

Firm size (# of employees)	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993	
	(000s)	%	(000s)	%	(000s)	%
<5	17.4	9.4	23.5	14.0	6.1	35
5-19	23.9	12.9	22.2	13.2	-1.7	-7
20-49	15.9	8.6	17.0	10.1	1.1	6
50-99	10.5	5.7	8.5	5.1	-2.0	-19
<b>Small firms</b>	<b>67.7</b>	<b>36.6</b>	<b>71.2</b>	<b>42.4</b>	<b>3.5</b>	<b>5</b>
100-499	21.5	11.6	19.4	11.5	-2.1	-9
500 or more	95.7	51.8	77.4	46.1	-18.3	-19
<b>All firms</b>	<b>184.9</b>	<b>100.0</b>	<b>168.0</b>	<b>100.0</b>	<b>-16.9</b>	<b>-9</b>

Source: Employment Dynamics

In the Atlantic region 77% of the gains by the micro-firm category were offset by employment losses in the 5-99 employee size category. This phenomenon was even more dramatic in the country as a whole, where employment losses in firms in the 5-99 employee size category actually exceeded gains in the micro-business category by 136,800.

In general it can be said that small businesses in the region outperformed Canada as a whole and continued to be job creators even in difficult economic times, indicating a strong entrepreneurial propensity. Larger firms, on the other hand, experienced significant employment losses in both the region and nationally.

**Table 2.10**  
**Employment Patterns by Size of Firm, Nova Scotia**  
**1989-1993**

Firm size (# of employees)	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993	
	(000s)	%	(000s)	%	(000s)	%
< 5	29.4	8.0	36.6	10.6	7.2	25
5-19	48.2	13.2	43.4	12.6	-4.8	-10
20-49	34.2	9.3	32.0	9.3	-2.2	-6
50-99	22.9	6.3	20.9	6.1	-2.0	-9
<b>Small firms</b>	<b>134.7</b>	<b>36.8</b>	<b>132.9</b>	<b>38.5</b>	<b>-1.8</b>	<b>-1</b>
100-499	53.6	14.6	47.6	13.8	-6.0	-11
500 or more	177.8	48.6	164.5	47.7	-13.3	-7
<b>All firms</b>	<b>366.1</b>	<b>100.0</b>	<b>345.0</b>	<b>100.0</b>	<b>-21.1</b>	<b>-6</b>

Source: Employment Dynamics

**Table 2.11**  
**Employment Patterns by Size of Firm, New Brunswick**  
**1989-1993**

Firm size (# of employees)	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993	
	(000s)	%	(000s)	%	(000s)	%
< 5	25.5	9.4	33.2	12.5	7.7	30
5-19	39.0	14.3	36.1	13.6	-2.9	-7
20-49	27.0	9.9	26.0	9.8	-1.0	-4
50-99	17.5	6.4	16.3	6.1	-1.2	-7
<b>Small firms</b>	<b>109.0</b>	<b>40.0</b>	<b>111.6</b>	<b>42.0</b>	<b>2.6</b>	<b>2</b>
100-499	34.1	12.5	28.7	10.8	-5.4	-16
500 or more	129.0	47.4	125.1	47.1	-3.9	-3
<b>All firms</b>	<b>272.1</b>	<b>100.0</b>	<b>265.4</b>	<b>100.0</b>	<b>-6.7</b>	<b>-2</b>

Source: Employment Dynamics

**Table 2.12**  
**Employment Patterns by Size of Firm**  
**Prince Edward Island**  
**1989-1993**

Firm size (# of employees)	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993	
	(000s)	%	(000s)	%	(000s)	%
< 5	6.0	12.3	7.6	15.9	1.6	27
5-19	8.9	18.3	8.5	17.8	-0.4	-4
20-49	5.2	10.7	5.4	11.3	0.2	4
50-99	3.6	7.4	3.1	6.5	-0.5	-14
<b>Small firms</b>	<b>23.7</b>	<b>48.8</b>	<b>24.6</b>	<b>51.5</b>	<b>0.9</b>	<b>4</b>
100-499	7.7	15.8	6.9	14.4	-0.8	-10
500 or more	17.2	35.4	16.3	34.1	-0.9	-5
<b>All firms</b>	<b>48.6</b>	<b>100.0</b>	<b>47.8</b>	<b>100.0</b>	<b>-0.8</b>	<b>-2</b>

Source: Employment Dynamics

## Employment Distribution by Industry Sector<sup>13</sup>

In both Canada (Table 2.13) and the Atlantic region (Table 2.14), the goods-producing sector accounted for most of the decline in employment (70.6% and 63.4% respectively). While the Atlantic region fared somewhat better in this sector, employment was down in Atlantic Canada in the funded sector by 5,500 (11.4%) compared to an increase in Canada as a whole of 122,500 (13.4%). On the other hand, the market services sector was down significantly in Canada, although it was up marginally in Atlantic Canada and was the only sector to show any employment gains. Employment in the goods-producing sector dropped by 20% in Canada and 16% in Atlantic Canada (mostly in manufacturing and construction). Other sectors remained relatively constant compared to 1989.

Table 2.15 shows the percentage changes in employment between 1989 and 1993 in the four major industry sectors for Canada, Atlantic Canada and individually for the four Atlantic provinces.

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<sup>13</sup> There was an unexplained difference of 20,000 employees between the total number employed in 1989 as reported in Table 2.7 and the number reported in Table 2.13.

**Table 2.13**  
**Distribution of Employment by Industry Sector, Canada**  
**1989-1993**

Industry sector	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993		% of total change in emp.
	(000s)	%	(000s)	%	(000s)	%	
Primary	169.6	1.4	165.5	1.4	- 4.1	-2	0.4
Mining	190.4	1.5	144.9	1.2	- 45.5	-24	5.0
Manuf.	2,185.5	17.4	1,786.1	15.3	-399.4	-18	43.8
Const.	660.8	5.3	465.0	4.0	-195.8	-30	21.5
<b>Goods-producing</b>	<b>3,206.3</b>	<b>25.5</b>	<b>2,561.5</b>	<b>22.0</b>	<b>-644.8</b>	<b>-20</b>	<b>70.6</b>
Wholesale	777.0	6.2	639.2	5.5	-137.8	-18	15.1
Retail	1,544.4	12.3	1,506.8	12.9	- 37.6	-2	4.1
<b>Trade</b>	<b>2,321.4</b>	<b>18.5</b>	<b>2,146.0</b>	<b>18.4</b>	<b>-175.4</b>	<b>-8</b>	<b>19.2</b>
T, C & U	766.3	6.1	787.4	6.8	21.1	+3	- 2.3
FIRE	974.4	7.8	847.9	7.3	-126.5	-13	13.9
P & B services	2,230.7	17.8	2,167.3	18.6	- 63.4	-3	6.9
<b>Market services</b>	<b>3,971.4</b>	<b>31.6</b>	<b>3,802.6</b>	<b>32.7</b>	<b>-168.8</b>	<b>-4</b>	<b>18.5</b>
Community services	1,858.3	14.8	2,036.4	17.5	178.1	+10	- 19.5
Public admin.	1,101.1	8.8	1,045.5	9.0	- 55.6	-5	6.1
<b>Funded sector</b>	<b>2,959.4</b>	<b>23.6</b>	<b>3,081.9</b>	<b>26.5</b>	<b>122.5</b>	<b>+4</b>	<b>- 13.4</b>
<b>Unclassified</b>	<b>97.5</b>	<b>0.8</b>	<b>51.2</b>	<b>0.4</b>	<b>- 46.3</b>	<b>-47</b>	<b>5.1</b>
<b>TOTAL</b>	<b>12,556.0</b>	<b>100.0</b>	<b>11,643.2</b>	<b>100.0</b>	<b>-912.8</b>	<b>-7</b>	<b>100.0</b>

Source: Employment Dynamics

Note: Abbreviations - Transportation, Communications and Utilities (T, C & U), Finance, Insurance and Real Estate (FIRE) and Personal and Business Services (P & B Services). Community Services includes Education and Health and Welfare.

**Table 2.14**  
**Distribution of Employment by Industry Sector, Atlantic Canada**  
**1989-1993**

Industry sector	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993		% of total change in emp.
	(000s)	%	(000s)	%	(000s)	%	
Primary	23.2	2.7	22.5	2.7	-0.7	-3	1.5
Mining	10.9	1.3	8.7	1.1	-2.2	-20	4.6
Manuf.	110.6	12.7	91.9	11.2	-18.7	-17	38.9
Const.	45.7	5.2	36.8	4.5	-8.9	-19	18.5
<b>Goods-producing</b>	<b>190.4</b>	<b>21.8</b>	<b>159.9</b>	<b>19.4</b>	<b>-30.5</b>	<b>-16</b>	<b>63.4</b>
Wholesale	41.6	4.8	36.3	4.4	-5.3	-13	11.0
Retail	128.1	14.7	124.1	15.1	-4.0	-3	8.3
<b>Trade</b>	<b>169.7</b>	<b>19.5</b>	<b>160.4</b>	<b>19.5</b>	<b>-9.3</b>	<b>-5</b>	<b>19.3</b>
T, C & U	49.3	5.7	51.3	6.2	2.0	+4	-4.2
FIRE	43.5	5.0	38.3	4.7	-5.2	-12	10.8
P & B services	125.0	14.3	128.5	15.6	3.5	+3	-7.3
<b>Market services</b>	<b>217.8</b>	<b>25.0</b>	<b>218.1</b>	<b>26.5</b>	<b>0.3</b>	<b>0</b>	<b>-0.6</b>
Community services	122.9	14.1	127.1	15.4	4.2	+3	-8.7
Public admin.	165.2	19.0	155.5	18.9	-9.7	-6	20.2
<b>Funded sector</b>	<b>288.1</b>	<b>33.1</b>	<b>282.6</b>	<b>34.3</b>	<b>-5.5</b>	<b>-2</b>	<b>11.4</b>
<b>Unclassified</b>	<b>5.5</b>	<b>0.6</b>	<b>2.4</b>	<b>0.30</b>	<b>-3.1</b>	<b>-56</b>	<b>6.4</b>
<b>TOTAL</b>	<b>871.5</b>	<b>100.0</b>	<b>823.4</b>	<b>100.0</b>	<b>-48.1</b>	<b>-6</b>	<b>100.0</b>

Source: Employment Dynamics

**Table 2.15**  
**Percentage Change in Employment**  
**Canada, Atlantic Canada and Provinces**  
**1989-1993**  
**(%)**

Sector	CAN	ATL CAN	NF	NS	NB	PEI
Goods-producing	-20	-16	-26	-20	- 8	- 6
Trade	- 8	- 5	- 5	- 7	- 4	- 2
Market services	- 4	0	0	+4	- 3	- 9
Funded sector	+4	- 2	- 7	- 2	+3	0

Source: Employment Dynamics

Focusing on the Atlantic region, the decline in employment in the goods-producing sector was 30,500, followed by 9,300 in the trade sector. These two sectors accounted for 63.4% and 19.3% of total employment losses in all sectors. Most notable of these declines were those that occurred in Newfoundland and Labrador and Nova Scotia in the goods-producing sector (Table 2.16 and Table 2.17). A decrease of 25,000 jobs in this sector in the two provinces combined accounted for 52% of the total employment decline in the region. Within this sector, manufacturing was the clear loser. These two provinces also accounted for 88% of the total decline in employment in the manufacturing sector in the region. These numbers are reflected in the sectoral percentage distribution presented in Table 2.18, where these provinces had the lowest percentage of employment in the goods-producing sector.

**Table 2.16**  
**Distribution of Employment by Industry Sector**  
**Newfoundland and Labrador**  
**1989-1993**

Industry sector	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993		% of total change in emp.
	(000s)	%	(000s)	%	(000s)	%	
Primary	3.5	1.9	3.1	1.9	-0.4	-11	2.3
Mining	4.0	2.2	2.8	1.7	-1.2	-30	6.8
Manuf.	22.1	12.0	14.3	8.5	-7.8	-35	44.3
Const.	8.8	4.8	8.2	4.9	-0.6	-7	3.4
<b>Goods-producing</b>	<b>38.4</b>	<b>20.8</b>	<b>28.4</b>	<b>17.0</b>	<b>-10.0</b>	<b>-26</b>	<b>56.8</b>
Wholesale	9.2	5.0	7.4	4.4	-1.8	-20	10.2
Retail	26.2	14.2	26.2	15.7	0.0	0	0.0
<b>Trade</b>	<b>35.4</b>	<b>19.1</b>	<b>33.6</b>	<b>20.1</b>	<b>-1.8</b>	<b>-5</b>	<b>10.2</b>
T, C & U	10.7	5.8	11.5	6.9	0.8	+7	-4.5
FIRE	7.8	4.2	6.3	3.8	-1.5	-19	8.5
P & B services	23.6	12.8	24.4	14.6	0.8	+3	-4.5
<b>Market services</b>	<b>42.1</b>	<b>22.8</b>	<b>42.2</b>	<b>25.2</b>	<b>0.1</b>	<b>0</b>	<b>-0.6</b>
Community services	27.6	14.9	25.5	15.2	-2.1	-8	11.9
Public admin.	40.0	21.6	37.1	22.2	-2.9	-7	16.5
<b>Funded sector</b>	<b>67.6</b>	<b>36.6</b>	<b>62.6</b>	<b>37.4</b>	<b>-5.0</b>	<b>-7</b>	<b>28.4</b>
Unclassified	1.4	0.8	0.5	0.3	-0.9	-64	5.1
<b>TOTAL</b>	<b>184.9</b>	<b>100.0</b>	<b>167.3</b>	<b>100.0</b>	<b>-17.6</b>	<b>-10</b>	<b>100.0</b>

Source: Employment Dynamics

**Table 2.17**  
**Distribution of Employment by Industry Sector, Nova Scotia**  
**1989-1993**

Industry sector	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993		% of total change in emp.
	(000s)	%	(000s)	%	(000s)	%	
Primary	7.3	2.0	6.9	2.0	- 0.4	-5	1.9
Mining	2.1	0.6	2.0	0.6	- 0.1	-5	0.5
Manuf.	48.0	13.1	39.3	11.4	- 8.7	-18	41.4
Const.	19.5	5.3	13.7	4.0	- 5.8	-30	27.6
<b>Goods-producing</b>	<b>76.9</b>	<b>21.0</b>	<b>61.9</b>	<b>18.0</b>	<b>-15.0</b>	<b>-20</b>	<b>71.4</b>
Wholesale	16.2	4.4	14.3	4.1	- 1.9	-12	9.0
Retail	55.6	15.2	52.2	15.1	- 3.4	-6	16.2
<b>Trade</b>	<b>71.8</b>	<b>19.6</b>	<b>66.5</b>	<b>19.3</b>	<b>- 5.3</b>	<b>-7</b>	<b>25.2</b>
T, C & U	17.9	4.9	21.4	6.2	3.5	+20	-16.7
FIRE	19.5	5.3	18.2	5.3	- 1.3	-7	6.2
P & B services	52.3	14.3	53.7	15.6	1.4	+3	- 6.7
<b>Market services</b>	<b>89.7</b>	<b>24.5</b>	<b>93.3</b>	<b>27.1</b>	<b>3.6</b>	<b>+4</b>	<b>-17.1</b>
Community services	56.1	15.3	58.4	16.9	2.3	+4	-11.0
Public admin.	69.1	18.9	63.9	18.5	- 5.2	-8	24.8
<b>Funded sector</b>	<b>125.2</b>	<b>34.2</b>	<b>122.3</b>	<b>35.5</b>	<b>- 2.9</b>	<b>-2</b>	<b>13.8</b>
<b>Unclassified</b>	<b>2.1</b>	<b>0.6</b>	<b>0.7</b>	<b>0.2</b>	<b>- 1.4</b>	<b>-67</b>	<b>6.7</b>
<b>TOTAL</b>	<b>365.7</b>	<b>100.0</b>	<b>344.7</b>	<b>100.0</b>	<b>-21.0</b>	<b>-6</b>	<b>100.0</b>

Source: Employment Dynamics

**Table 2.18<sup>14</sup>**  
**Percentage Distribution of Employment**  
**by Province and by Sector**  
**1993**  
**(%)**

Region	Goods-producing sector	Trade sector	Market services sector	Funded sector
NF	17.0	20.1	25.2	37.4
PEI	20.7	19.8	25.7	33.6
NS	18.0	19.3	27.1	35.5
NB	22.6	19.3	26.7	31.0
ATL CAN	20.0	20.0	27.2	32.5

Source: Employment Dynamics

Employment in the market services sector was up slightly in the region primarily as a result of increases in Nova Scotia. Had there not been a significant decline in employment in the finance, insurance and real estate categories, the performance in the market services sector in Nova Scotia would have been much stronger.

Clearly, many jobs disappeared as a result of the closure of fish plants associated with the groundfish moratorium which came into effect in July 1992. Table 2.19 shows the number of individuals who were clients of The Atlantic Groundfish Strategy (TAGS) in May of 1996 in Newfoundland and Labrador and Nova Scotia. These represent 90% of the total of 39,671 TAGS clients in the region. While it is difficult to determine the total impact of the groundfish closure on jobs in the region, the data indicate that 21,261 individuals in these two provinces, who were formerly employed as part-time or

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<sup>14</sup> Percentages do not total 100 since the unclassified category is not included.

full-time plant workers, were on TAGS program in May of 1996. In addition, 14,328 individuals from the harvesting sector of the fishery were TAGS program recipients. Some unknown percentage of these were registered as unemployed, some had moved to other part-time employment but were still registered as TAGS clients and still others had left the work force totally with their only income coming from the TAGS program. In any event, the impact on employment in Newfoundland and Labrador and Nova Scotia has been substantial and, had the groundfish fishery not closed in 1992, the overall performance with respect to employment in Atlantic Canada would have been much better, especially in the goods-producing sector.

**Table 2.19**  
**Impact of Groundfish Closure on**  
**Plant Workers and Harvesters, NF and NS**

NF			NS	
Eligible for TAGS	Total	%	Total	%
Plant workers	16,662	60	4,599	58.9
Harvesters	11,108	40	3,220	41.1
<b>TOTAL</b>	<b>27,770</b>	<b>100</b>	<b>7,819</b>	<b>100.0</b>
	78%		22%	

Source: The Atlantic Groundfish Strategy, An Overview of Program Participants and Profiles on a Regional Basis, 1996-1999, Newfoundland and Labrador Cabinet Secretariat May 1996, and correspondence with HRD Canada, May 1996

The negative multiplier effect of lost production jobs also affected the trade sector in these two provinces. For example, of the total decline in employment (9,300) in the trade sector in the Atlantic region, 76% (7,100) occurred in Newfoundland and Labrador and Nova Scotia. The funded sector also suffered in

Newfoundland and Labrador and in Nova Scotia, experiencing a decline in employment of 7,900.

The total employment decline in New Brunswick (Table 2.20) was 7,600 or 16.4% of the regional total. As was the case with Newfoundland and Labrador and with Nova Scotia, the impact of the decline in the goods-producing sector in New Brunswick was also substantial with 64.5% of the total decline in employment occurring in this sector. The profile within the goods-producing sector in New Brunswick was somewhat different from that of Newfoundland and Labrador, and Nova Scotia in that manufacturing did not suffer as much. The construction industry represented the greatest employment decrease in the goods-producing sector in New Brunswick with a decline of approximately 2,200. Another difference between New Brunswick and the other provinces in the region was the net gain in employment in the funded sector. While the rest of the region experienced a decline of 7,900, New Brunswick increased by 2,400.

**Table 2.20**  
**Distribution of Employment by Industry Sector, New Brunswick**  
**1989-1993**

Industry sector	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993		% of total change in emp.
	(000s)	%	(000s)	%	(000s)	%	
Primary	9.8	3.6	9.9	3.7	0.1	+1	- 1.3
Mining	4.8	1.8	3.9	1.5	-0.9	-19	11.8
Manuf.	35.8	13.1	33.9	12.8	-1.9	-5	25.0
Const.	14.6	5.3	12.4	4.7	-2.2	-15	28.9
<b>Goods-producing</b>	<b>65.0</b>	<b>23.8</b>	<b>60.1</b>	<b>22.6</b>	<b>-4.9</b>	<b>-8</b>	<b>64.5</b>
Wholesale	13.9	5.1	12.5	4.7	-1.4	-10	18.4
Retail	39.3	14.4	38.7	14.6	-0.6	-2	7.9
<b>Trade</b>	<b>53.2</b>	<b>19.5</b>	<b>51.2</b>	<b>19.3</b>	<b>-2.0</b>	<b>-4</b>	<b>26.3</b>
T, C & U	18.3	6.7	17.1	6.4	-1.2	-7	15.8
FIRE	14.2	5.2	11.8	4.4	-2.4	-17	31.6
P & B services	40.6	14.9	41.9	15.8	1.3	+3	-17.1
<b>Market services</b>	<b>73.1</b>	<b>26.8</b>	<b>70.8</b>	<b>26.7</b>	<b>-2.3</b>	<b>-3</b>	<b>30.3</b>
Community services	31.6	11.6	35.6	13.4	4.0	+13	-52.6
Public admin.	48.3	17.7	46.7	17.6	-1.6	-3	21.1
<b>Funded sector</b>	<b>79.9</b>	<b>29.3</b>	<b>82.3</b>	<b>31.0</b>	<b>2.4</b>	<b>+3</b>	<b>-31.6</b>
<b>Unclassified</b>	<b>1.9</b>	<b>0.7</b>	<b>1.1</b>	<b>0.4</b>	<b>-0.8</b>	<b>-42</b>	<b>10.5</b>
<b>TOTAL</b>	<b>273.1</b>	<b>100.0</b>	<b>265.5</b>	<b>100.0</b>	<b>-7.6</b>	<b>-3</b>	<b>100.0</b>

Source: Employment Dynamics

The changes in employment distribution in Prince Edward Island (Table 2.21) differed from the other provinces in that most of the decline occurred in transportation, communications and utilities, a sub-sector of market services. Losses in this sector represented 57.9% of the total decline in employment in the province. Similar to the rest of the region, losses in the goods-producing sector were not inconsequential (31.6% of the total). However, Prince Edward Island did fare much better in this sector than any other province in the region and Canada as a whole. The overall picture for Prince Edward Island was that the province emerged from the 1989-93 period in a relatively stable employment position.

## Self-Employment

Self-employment in Canada plays a significant role in the economy. An Industry Canada report<sup>15</sup> indicates that over 1,900,000 persons reported some earnings from self-employment in 1993 representing 15.4% of the total work force (up from 13.5% in 1983). The most significant increases over the 1983-1993 period occurred in the finance, insurance and real estate (FIRE) sector, the services sector and the construction sector (Chart 2.1).

Table 2.22 shows the number of self-employed in Canada, Atlantic Canada and the four Atlantic Provinces between 1989 and 1995. Over the period, there was an increase in self-employment in Canada as a whole of 19.4% compared to an increase in Atlantic Canada of 15.8%. The lower percentage increase in Atlantic Canada is the result of a decrease in 1992 in almost every Atlantic province. Overall, the number of self-employed in the region in 1992 decreased by 4.7% over 1991. At the same time, Canada as a whole registered a slight increase of 1%.

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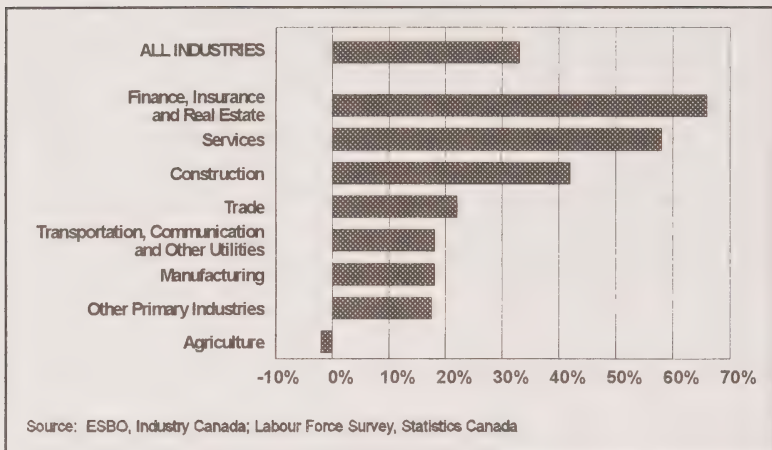
<sup>15</sup> *Small Business in Canada, A Statistical Overview*, 1994, Industry Canada, Ottawa.

**Table 2.21**  
**Distribution of Employment by Industry Sector**  
**Prince Edward Island**  
**1989-1993**

Industry sector	Employment distribution 1989		Employment distribution 1993		Net change in employment 1989-1993		% of total change in emp.
	(000s)	%	(000s)	%	(000s)	%	
Primary	2.6	5.4	2.6	5.7	0.0	0	0.0
Mining		0.0		0.0	0.0	0	0.0
Manuf.	4.7	9.8	4.4	9.6	-0.3	-6	15.8
Const.	2.8	5.9	2.5	5.4	-0.3	-11	15.8
<b>Goods-producing</b>	<b>10.1</b>	<b>21.1</b>	<b>9.5</b>	<b>20.7</b>	<b>-0.6</b>	<b>-6</b>	<b>31.6</b>
Wholesale	2.3	4.8	2.1	4.6	-0.2	-9	10.5
Retail	7.0	14.6	7.0	15.3	0.0	0	0.0
<b>Trade</b>	<b>9.3</b>	<b>19.5</b>	<b>9.1</b>	<b>19.8</b>	<b>-0.2</b>	<b>-2</b>	<b>10.5</b>
T, C & U	2.4	5.0	1.3	2.8	-1.1	-46	57.9
FIRE	2.0	4.2	2.0	4.4	0.0	0	0.0
P & B services	8.5	17.8	8.5	18.5	0.0	0	0.0
<b>Market services</b>	<b>12.9</b>	<b>27.0</b>	<b>11.8</b>	<b>25.7</b>	<b>-1.1</b>	<b>-9</b>	<b>57.9</b>
Community services	7.6	15.9	7.6	16.6	0.0	0	0.0
Public admin.	7.8	16.3	7.8	17.0	0.0	0	0.0
<b>Funded sector</b>	<b>15.4</b>	<b>32.2</b>	<b>15.4</b>	<b>33.6</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>
Unclassified	0.1	0.2	0.1	0.2	0.0	0	0.0
<b>TOTAL</b>	<b>47.8</b>	<b>100.0</b>	<b>45.9</b>	<b>100.0</b>	<b>-1.9</b>	<b>-4</b>	<b>100.0</b>

Source: Employment Dynamics

**Chart 2.1**  
**Growth in Self-Employed by Industry**  
**Canada**  
**1983-1993**



**Table 2.22**  
**Growth in Self-Employment**  
**Canada, Atlantic Canada**  
**1989-1995**

Region	1989 (000s)	1990 (000s)	1991 (000s)	1992 (000s)	1993 (000s)	1994 (000s)	1995 (000s)	% chg. 1989-95
NF	23	25	28	27	28	30	29	22.8
NS	50	49	50	48	52	54	56	12.1
NB	34	39	38	36	37	40	41	19.1
PEI	10	10	10	10	10	10	11	7.1
ATL CAN	117	122	126	120	127	135	135	15.8
CAN	1,741	1,822	1,856	1,873	1,984	2,056	2,079	19.4

Source: Labour Force Surveys, Statistics Canada

Again, much of the decline in Atlantic Canada in 1992 can be attributed to the closure of the groundfish fishery. The Atlantic region rebounded quickly following the closure and between 1992 and 1995 self-employment grew by 12.4% compared to 11% for Canada as a whole. Normally, self-employment runs counter-cyclical to employment trends, since the unemployed endeavour to find some way to earn a living. The magnitude of the sudden groundfish closure in 1992, however, was an anomaly in that people in rural areas of Newfoundland and Labrador, and Nova Scotia took some time to recover. This was especially true for people with limited training and living in isolated coastal communities.

In conclusion, it can be said that the 1989-1993 period was a difficult one for Canada and the Atlantic region. On a positive note, however, Atlantic Canada was able to withstand the recession somewhat better than the country as a whole. Furthermore, as the economy improved in 1994-95, small firms led the way in their role as job creators.



# CHAPTER 3

## HOME-BASED BUSINESS

The present chapter summarizes the results of three recently completed research projects related to the topic of home-based business. The first is a study<sup>16</sup> carried out by the Rural and Small Towns Programme of Mount Allison University between June 1993 and late 1994 on home-based business in Atlantic Canada. This study was a follow-up on two previous studies by the same group in 1986 and in 1992. The second is a report<sup>17</sup> of the Economic Recovery Commission of Newfoundland and Labrador which included the results of a study of home-based business by the Home-Based/Micro Industries Working Group. The third is a study<sup>18</sup> of entrepreneurship among persons with disabilities in Nova Scotia completed by the Metro Resource Centre for Independent Living in Halifax. Although not focused specifically on home-based business, this latter report is included here since the vast majority of businesses operated by persons with disabilities are home-based.

Few studies have endeavoured to focus on the nature of home-based business. The studies by Foster and Orser<sup>19</sup> and Good

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<sup>16</sup> *The State of Home-Based Business in Atlantic Canada: The Report of Research Findings from the Mount Allison University Study of Home-Based Business in Atlantic Canada*, 1995. sponsored by ACOA and The Donner Foundation.

<sup>17</sup> *New Opportunities for Growth*, 1992, Economic Recovery Commission of Newfoundland and Labrador, St. John's.

<sup>18</sup> *Toward Promoting The Concept Of Entrepreneurship among Persons with Disabilities*, 1994, Published by Metro Resource Centre for Independent Living, Halifax, Nova Scotia.

<sup>19</sup> *Home Enterprise: Canadians and Home-Based Work*, 1993, Mary K. Foster and Barbara J. Orser, *Journal of Small Business and Entrepreneurship*, Vol. 10, No. 4, p. 81-89.

and Levy<sup>20</sup> represent the Canadian benchmark studies. Both of these studies indicated that businesses operated in and from the home environment are increasingly important in our economic system.

The Foster and Orser study used a broad definition of home-based work that included self-employed individuals and employees who worked out of their home for reasons of convenience. Twenty-three percent of Canadian homes had some form of home-based business activity and 50% of these were self-employed. This study also indicated that 50% of all businesses start in the home and projected that by the end of the decade home work (of all types) may account for 40% of all employment. Little wonder then that home-based business is gaining some attention.

## **Home-Based Business in Atlantic Canada**

The 1995 report of The Rural and Small Towns Programme, Mount Allison University, set out to identify the contribution home-based business makes to the Atlantic region economy and to focus on the problems and opportunities associated with operating a business from the home. Also included in the objectives was an effort to develop an understanding of the interplay between home-based business activities and domestic activities. On the micro level, the study endeavoured to determine the impact of the business operation on family life and the degree to which the family affected the business.

The definition of a home-based enterprise used by the Mount Allison team was somewhat more specific than that used by

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<sup>20</sup> *Home-Based Business: A Phenomenon of Growing Economic Importance*, 1992, W.S. Good and M. Levy, *Journal of Small Business and Entrepreneurship*, Vol. 10, No. 1, p. 34-46.

Foster and Orser in that it did not include the employee category referred to previously. Specifically, the definition used was a business "which is owned and/or operated by a self-employed individual working from his or her own home or from another building on the property, which may or may not employ other people, and which provides a service or product from that workplace."<sup>21</sup>

## **Profile of the Home-Based Business Owner**

The survey, with 855 completed questionnaires (a response rate of 28%), reported on several important aspects of home-based enterprise. Of the total respondents, 73% had no other job outside the home while 17% had some type of part-time job. Only 10% were able to operate a home-based business while still maintaining a full-time job outside the home.

In terms of the contribution to household income, almost 19% (165 households) relied totally on the home-based enterprise to support the family and 36.8% of respondents contributed more than 50% of household income. On the other hand, 27% indicated that the home-based business contributed 10% or less to the household income.

It is likely that those businesses that contributed the higher percentage to household income were in the construction and business/professional sectors, while those contributing the lower percentages would be in the arts and crafts, personal services and retail/wholesale sectors.

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<sup>21</sup> *The State of Home-Based Business in Atlantic Canada: The Report of Research Findings from the Mount Allison University Study of Home-Based Business in Atlantic Canada, 1995, p. 2*

## Profile of the Ventures

Apart from a few exceptions, most businesses operating from the home were small (fewer than 10 employees). This is clearly a characteristic of home-based business related to the physical constraints of the location and the nature of the business itself. Only 7% of those responding had more than 10 employees (Table 3.1) and only four firms reported that they had more than 50 employees.

**Table 3.1**  
**Distribution of Respondents by Business Size**

Employees	Number of Businesses	Percentage
< 3	436	53.7
3 to 5	231	28.5
6 to 10	88	10.9
Over 10	<u>52</u>	<u>6.9</u>
Total	807	100.0

Source: The State of Home-Based Business in Atlantic Canada

The distribution of respondents by industry type was quite broad. Construction represented the highest percentage (23%), followed by hospitality (17%) and personal services (16%) (Table 3.2). Since the sample was chosen from rural areas and small towns where municipal regulations are not generally strict, it is not surprising that the range of business types is wide and that construction is the most prevalent. A person with a backhoe and two trucks operating from the home in a rural area is a common sight and can easily constitute a viable small business. Likewise, beauty parlours, Bed and Breakfast establishments and small retail stores in or attached to a home form part of the rural culture.

**Table 3.2**  
**Distribution of Respondents by Business Type**

<b>Type</b>	<b>Number of Businesses</b>	<b>Percentage</b>
Hospitality	147	17
Business/Professional	64	8
Crafts/Arts	71	8
Construction	191	23
Equip. service and repair	42	5
Manufacturing	87	10
Personal services	134	16
Retail/Wholesale	76	9
Other	<u>35</u>	<u>4</u>
Total	847	100

Source: The State of Home-Based Business in Atlantic Canada

Measured in terms of revenue, 77.6% of home-based businesses reported gross revenues of \$100,000 or less with 31.9% of these falling into the \$25,001-\$100,000 category (Table 3.3). It is significant, however, that 182 (22.4%) firms in the sample had gross revenues of over \$100,000. It is safe to assume that these

**Table 3.3**  
**Annual Gross Revenue for Respondents for 1992**

	<b>%</b>
Over \$200,000	12.2
\$100,001 - \$200,000	10.2
\$25,001 - \$100,000	31.9
\$5,001 - \$25,000	27.6
Under \$5,000	18.0

Source: The State of Home-Based Business in Atlantic Canada

firms contributed the most to household income. As stated earlier, the group that contributed greater than 50% of household income represented some 37% of the households in the sample.

## **Other Issues**

The study focused on some key issues other than income and employment issues. These included:

- Motivation for operating out of the home
- Competitive/Cost advantage
- Technology
- Impact on family lifestyle
- Use of the home for business purposes
- Incubation

**Motivation.** When respondents were asked about their motivations for locating the business in their home the three most cited reasons were that (1) it represented the preferred lifestyle, (2) the business was too small to locate outside the home, and (3) there were financial constraints related to locating in commercial facilities. In many ways, reasons two and three are related, in that the very small enterprise may not be capable of generating the level of revenue required to purchase or rent commercial space and this consequently created a financial constraint.

The fourth most mentioned reason for starting a home-based business was the need to care for the family. Clearly, a preferred lifestyle, the most cited reason, and family care are not mutually exclusive reasons for locating an enterprise in the home. In fact, if the only option available to some home-based entrepreneurs was to locate outside the home, the enterprise

would probably not be created because of the overriding desire to ensure that family needs are adequately taken care of.

**Competitive/Cost Advantage.** While respondents did not rank competitive advantage as a major motivation for locating their business in the home, there are generally several advantages that could at least lead to a competitive advantage. These include lower overheads, lower taxes, and, although not stressed in the study, the use of the unpaid help of family members. The latter, while difficult to quantify, would include such activities as answering the telephone and taking messages, minding the store, servicing customers and counting inventory. When asked to state the reason for the success of their home enterprise, 66.2% mentioned service or product quality or unique service and market niche, while only 20.8% used lower price as a reason, despite the fact that the sample rated lower cost as the primary competitive advantage. This would appear to suggest that owners of home-based businesses are strongly attached to the business activity and proud to be providing a product or service that is of high quality.

**Technology.** Rapidly developing technologies are making it possible for many types of businesses to operate effectively and efficiently from the home. While longitudinal comparisons are not available, it would appear that home-based enterprises are embracing a number of the electronic and telecommunications technologies now available. Table 3.4 gives an indication of the usage patterns: only 32.0% use a computer; only 8.5% have a modem; only 33.5% have a business telephone line. Slightly more than a quarter of them even have a fax machine. The relatively low use of computers and modems is at least partially explained by an expression of “intimidation” on the part of some of the respondents. Some 97% of them were over 30

years old, which may account for this. Furthermore, since 54% of the sample were in the very small business category (<3 employees), the purchase of a computer or some of the other devices may result in capital and operating costs beyond the means of the business.

**Table 3.4**  
**Usage of Technology by Home-Based Firms**

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	Percentage of Businesses Using the Device
Answering machine	53.8
Business line	33.5
Personal computer	32.0
Fax machine	26.2
Cellular phone	21.1
Multi line phone	18.8
Display phone	16.3
Modem	8.5

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Source: The State of Home-Based Business in Atlantic Canada

**Lifestyle.** Table 3.5 presents a very positive view of home-based enterprise as perceived by the owners. The potentially negative impacts on family life drew consistent ratings below the mid-point, while the potentially positive impacts were rated much higher. The general conclusion of the study was that “the majority had, in their own eyes, achieved a fruitful balance between family and business and were managing the negative impacts of one on the other successfully”.<sup>22</sup>

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<sup>22</sup> Ibid., p. 51

In almost all cases in a home-based business, family members played an important role either as helpers or as employees. The Mount Allison University study did not focus particularly on the role children played in the home-based business except to point

**Table 3.5**  
**Comparison of Positive and Negative Impacts**  
**on Family Life**

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<b>Most Positive Ratings</b>	<b>Average Rating*</b>
More time for household	3.80
Ability to respond to family needs	3.75
More time with family	3.78
Children learn from business	3.49
 <b>Most Negative Ratings</b>	
Interruptions from clients	2.92
Family stress caused by business	2.03
Business borrowing from family friends	2.27
Negative feelings about business	2.00

\* Scale: 1 = low, 5 = high

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Source: The State of Home-Based Business in Atlantic Canada

out that children may provide a “source of inexpensive casual labour more reliable than similar labour employed from the labour market outside the household.”<sup>23</sup> Of the survey respondents, 24.8% had children aged 13 to 17 years; an age group when children could contribute most to the home-based business. However, the study did present data on the contribution of the spouse. Husbands of women proprietors

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<sup>23</sup> Ibid., p. 17.

contributed less often to the business than the spouse in the male-owned business (26.1% versus 41%). Furthermore, the spouse assisting in a male proprietorship tended to take on different roles than their male counterparts. These included clerical tasks (in 48% of the cases) and customer contact (in 37% of the cases). For the same tasks, males contributed in 15.9% and 26.1% of the cases respectively.

**Use of the home for business purposes.** The degree of interaction between business activity and family life is directly related to the use of the home for business purposes. The study reported that almost all firms surveyed used the home as a business address even though, in many cases, the business activity took place outside the home location. In 60.5% of the cases the home was used for more than 50% of the time, while 25.4% of the respondents used the home for less than one quarter of the time (Table 3.6).

The degree to which the home is used for business purposes is also a function of the type of business. The construction industry, for example, was heavily represented in the survey accounting for 23% of the respondents. Construction included landscapers, driveway pavers and a number of related businesses that clearly were engaged in activities that were performed outside the home location. Such firms probably represented many of the largest firms in the sample measured in terms of both employment and total gross revenues, but used the home purely as a telephone number and an administrative post to facilitate the rather sporadic and unstructured nature of the business. On the other hand, the hospitality industry, representing 147 (17%) of the respondents, retail and wholesale (9%) and arts and crafts (8%), would likely use the home as the primary location for the business activity.

**Table 3.6**  
**Use of the Home for Business**

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% of business time in home	% of respondents
Over 75%	45.6
51% - 75%	14.9
25% - 50%	14.2
Less than 25%	25.4

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Source: The State of Home-Based Business in Atlantic Canada

Based on this survey it can be said that the use of the home for business purposes varied with the nature of the business and the number of employees required to operate directly out of the home.

**Incubation.** The home is often considered an incubation location providing an opportunity to test the concept and its viability and to become somewhat established before moving to commercial space. In the Mount Allison study, 42% of respondents had been operating a business from home for less than five years, and hence may be said to still be in an "incubation period."

Some firms, however, remained as home-based businesses for quite long periods of time. In fact, 35% of the respondents had operated from the home for more than 10 years; well beyond what one would consider a reasonable incubation period. Longevity, as a characteristic of home-based enterprise, is a function of the nature of the business. Some firms like Bed and Breakfast establishments are tied to the home and others such as small crafts operations may lack the desire or the opportunity for growth beyond their present size.

## Barriers to Home-Based Business

Despite the fact that the Mount Allison study found that home-based businesses reported relatively minor problems operating from the home, there may be a number of inhibiting factors that work against home-based start-ups. The study by The Economic Recovery Commission of Newfoundland and Labrador<sup>24</sup> reported on the results of five focus groups of home-based entrepreneurs and a survey of government officials. The outcome of this study suggested three major problem areas related to the creation of new home-based businesses:

- Lack of planning
- Poor regulatory environment
- Limited government support

**Lack of planning.** The individual quite often will endeavour to start a home-based business without proper planning and subsequently encounter problems related to zoning regulations, health and environmental laws and family conflicts. The result is that the business does not get off the ground or is closed soon after opening.

**Poor regulatory environment.** Municipal regulations are not consistent and in many cases, where they do exist, the regulations are not well-publicized, are overly restrictive and are sometimes inappropriately applied. In some cases the municipalities may have no policies and respond only when some problem such as noise or excessive traffic is brought to their attention.

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<sup>24</sup> *New Opportunities for Growth*, 1992, Economic Recovery Commission of Newfoundland and Labrador, St. John's.

**Limited government support.** The Provincial Government pays little attention to home-based business as an economic force. Apart from the arts and crafts industry, the government appears to have no policy regarding the encouragement of home-based enterprise. A press release that preceded the report stated that various departments continued to enforce “an array of complicated and at times contradictory legislation”<sup>25</sup> to the detriment of the healthy development of the home-based sector.

## Conclusions

The Mount Allison Study and The Economic Recovery Commission Report present a reasonably comprehensive picture of the structure of home-based business in Atlantic Canada, together with some of the problems and opportunities of operating a business in such an environment. There are clear limitations on the size and type of business that can be operated from the home. These limitations are partly because of the nature of the business and partly because of various restrictions imposed by municipal zoning regulations. There is a growing recognition of the economic impact of home-based enterprise but more research is needed to encourage government bodies to develop programs and policies that support this growing sector of the economy. However, the conclusion is one of optimism. When asked by the Mount Allison researchers about their expansion plans, over 80% of home-based entrepreneurs indicated that they were looking for new markets and/or new products — clearly a growth-oriented perspective! Finally, indications are that the trend toward home-based business will be an important factor in the growth of small business and entrepreneurship in the future.

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<sup>25</sup> *Home-Based Micro Industries Synthesis of Findings and Recommendations*, March 1992, Economic Recovery Commission of Newfoundland and Labrador, St. John's.

## Entrepreneurship among Persons with Disabilities

The objectives of this research project<sup>26</sup> were to profile the population of entrepreneurs with disabilities in the Province of Nova Scotia, to determine the barriers they face and to make recommendations on appropriate support mechanisms to encourage and assist persons with disabilities in entrepreneurial endeavours.

A total of 58 entrepreneurs with disabilities completed telephone surveys and another 10 participated in focus groups. Approximately 90% of the participants had been recipients of funding provided under the *Disabled Entrepreneurs Program (D.E.P.)*.<sup>27</sup> The study is considered to be exploratory in nature and does not claim to be based on a random sample of the population of persons with disabilities. Nonetheless, the results of the research provide a useful profile of the population of entrepreneurs with disabilities and insight into their entrepreneurial experiences.

### Profile of Entrepreneurs with Disabilities

Over 80% of the group reported having either a moderate or severe disability with nearly 75% of the agility or mobility type. Although the respondents indicated that their disabilities did not represent insurmountable barriers, the disability clearly impacted their work. In terms of formal education, 75% of the group had at least a high school education and over 50% had some post-secondary education or training. Over 90% had previous

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<sup>26</sup> *Toward Promoting the Concept of Entrepreneurship among Persons with Disabilities*, 1994. Published by Metro Resource Centre for Independent Living, Halifax, Nova Scotia.

<sup>27</sup> The D.E.P. was operated by the Provincial Department of Economic Development (now the Nova Scotia Economic Renewal Agency) for the ten-year period up to 1993. The program provided grants of up to \$7,500 to persons with disabilities starting a business.

business experience, although only 31% had supplemented this experience with entrepreneurial training prior to start-up. Finally, only 16% of the entrepreneurs with disabilities were female, a sharp contrast to the 52.6%<sup>28</sup> reported for female persons with disabilities in Nova Scotia.

## **Profile of Entrepreneurial Ventures**

The service sector represented the sector of choice for 42% of the entrepreneurs, followed by the retail sector at 19% and the primary sector at 12%. All other sectors, including manufacturing, communications and tourism accounted for less than 10% each. The preferences for businesses in the service sector and the rather low incidence of participation in the goods-producing sector may have direct implications for access to financing which was cited as a major barrier by respondents.

One of the most significant findings in relation to the types of ventures operated by persons with disabilities was the fact that over 75% were home-based businesses. Almost 80% were operated as sole proprietorships. Additional research is required to explain the rationale for these decisions, since respondents were not provided with an opportunity to elaborate in the survey. It is noteworthy, however, that when one considers the business income of these ventures (58% less than \$15,000) and number of employees (67% with one or none), they are somewhat smaller than the population of home-based businesses discussed previously. Given the relatively low levels of business income, it is not surprising that 60% of respondents indicated that they had other income sources, for example, disability pensions, spousal income and other employment.

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<sup>28</sup> Source: 1991 Health and Activity Limitation Survey (HALS).

## **Motivations for Establishing Ventures**

The survey did not include questions concerning the reasons for starting businesses; however, the focus group discussions provided an opportunity for individuals to discuss their motivation. While the difficulty in finding employment and lack of money were factors for some, interest, challenge and recognition of an opportunity were also highlighted as underlying motivations.

## **Success and Failure Rates**

Measures of success and failure in this study were limited to whether or not businesses were still in operation at the time of the study and for how long. The success rate appeared to be quite good with two-thirds of the businesses still operational. However, this result should be interpreted with caution since 43% of the businesses were less than two years old and almost 80% had been in operation for less than five years.

In addition, the data on firms still in operation were examined from the perspectives of the nature of the disability and the level of education of the entrepreneurs. The exit rate for businesses operated by persons with severe disabilities was significantly greater than those operated by persons with mild or moderate disabilities. Similarly, those with agility and mobility disabilities experienced a significantly higher exit rate than those with other types of disabilities. Further, there was a strong positive correlation between the likelihood of still being in business and the number of years of education.

One final point regarding success and failure rates concerns the nature of the businesses and the income derived from the ventures. As indicated previously, businesses operated by persons with disabilities were generally small and home-based

and provided only partial income support to the owners. These factors may have had some impact on decisions to continue operations and possibly, therefore, on success and failure rates.

## **Barriers to Start-up and Growth**

Participants were not asked directly to identify barriers they faced when establishing or operating their businesses. However, they were asked questions concerning sources of financing, assistance provided and support that would have been useful. The responses were remarkably similar to those expressed by young entrepreneurs (see Chapter 5) especially with respect to the lack of available financing. Excluding the Disabled Entrepreneurs Program, the primary sources of financing for entrepreneurs with disabilities consisted of personal and family funds (50%), banks (38%) and government (12%). Not surprisingly, therefore, over 75% indicated that the D.E.P. had been an important source of funds and that improved access to both loans and grants was an important consideration.

In addition, respondents identified the need for more support in the form of entrepreneurial training, assistance with preparing business plans and access to sound managerial advice. Most felt that better access to a business development officer and a one-stop business development centre would be helpful.

## **Future Directions**

The exploratory nature of the research reported here limits the ability to generalize from the results. Nonetheless, a number of suggestions were made regarding policy measures and programs that would assist entrepreneurs with disabilities to establish and grow their businesses. The specific recommendations are summarized in Table 3.7.

**Table 3.7**  
**Summary Recommendations**  
**on Encouraging Entrepreneurship**  
**among Persons with Disabilities**

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- Improve access to training opportunities for entrepreneurs with disabilities.
  - Develop financial assistance programs targeted to entrepreneurs with disabilities.
  - Establish a network of entrepreneurs with disabilities to act as mentors.
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# CHAPTER 4

## ENTREPRENEURSHIP AMONG FRANCOPHONES

The present chapter summarizes the results of recently completed research into entrepreneurship within the francophone community in Atlantic Canada.<sup>29</sup> The study underlying this report was intended to increase awareness of Acadian entrepreneurship in the region and to provide information to assist in the design and development of policies and programs to support the start-up and growth of firms owned by francophone entrepreneurs. The report focused on: the profile of Acadian entrepreneurs; the profile of their ventures; and the small business support structures, in particular financial support.

The information included in the report was obtained from a combination of primary and secondary sources. Primary data derived from: a mail survey of members of the Conseil économique du Nouveau-Brunswick (CENB); individual open-ended interviews with key individuals and entrepreneurs; and roundtable discussions with business owners. Survey responses were received from 140 entrepreneurs (a response rate of 16%), interviews were conducted with 52 key individuals and 24 business owners participated in the roundtables. Secondary data were taken largely from Statistics Canada reports.

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<sup>29</sup> *Acadian Entrepreneurship: Its Sources, Growth and Future*, 1996, the Cconseil économique du Nouveau-Brunswick, Moncton (unless otherwise indicated the data in this chapter were taken from this report).

## Profile of Francophones in Atlantic Canada

In order to have an understanding of francophone entrepreneurship in Atlantic Canada, it is useful to have some background on the regional francophone community. While the report<sup>30</sup> provides a more complete statistical overview of Acadian entrepreneurship and the economy, a summary of key facts is presented here to provide a context for the discussion to follow.

Firstly, the francophone population in Atlantic Canada, as of 1991, represented 12.4% of the total population and grew at a rate of 6.7% from 1986 to 1991. This is in sharp contrast to the overall increase in population in the region of slightly less than 1%. Secondly, as can be seen in Table 4.1, the francophone population in the region was concentrated primarily in New Brunswick which accounted for 85% of the total. Twelve counties out of a total of 44 in the region accounted for 83.5% of the Francophones in 1991. Thirdly, there was a significant

**Table 4.1**  
**Distribution of Francophones**  
**in Atlantic Canada**

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	%
New Brunswick	85.0
Nova Scotia	12.4
P.E.I.	1.8
Newfoundland and Labrador	0.8
Total	100.0

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Source: Acadian Entrepreneurship: Its Sources, Growth and Future, 1996

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<sup>30</sup> Ibid.

increase (36%) in self-employment in the region between 1986 and 1991. The growth rate in self-employment in the francophone counties was slightly lower at 31%.

## Profile of Acadian Entrepreneurs

The report does not reflect the geographical distribution of Acadians in that there were fewer respondents from New Brunswick than might be expected, given their relative geographic importance (Table 4.2)<sup>31</sup>. This difference should be kept in mind when interpreting results.

**Table 4.2**  
**Distribution of**  
**Survey Respondents**  
(n = 140)

	%
New Brunswick	69.8
Nova Scotia	17.3
P.E.I.	12.2
Newfoundland and Labrador	0.0
Quebec	<u>0.7</u>
Total	100.0

Source: Acadian Entrepreneurship: Its Sources, Growth and Future, 1996

The following profile of Acadian entrepreneurs emerged from the survey responses:

<sup>31</sup> There was one respondent from Quebec and one respondent who did not indicate province of business residence.

- 72% male
- 83% post-secondary education
- 75% over age 40
- 59% more than 10 years in business

**Education.** The percentage with some post-secondary education was quite high. In fact, over half of the respondents were university graduates, with business administration as the dominant degree and marketing and finance as the primary areas of specialization. In addition, almost half of the respondents had undertaken some informal management training in the form of short courses and seminars. The high level of education and training of respondents may reflect the fact that CENB members are generally well educated.

**Age.** Not only were 75% of respondents over the age of 40, only 1% were under the age of 31.

**Experience.** Francophone entrepreneurs appeared to be relative newcomers with over 40% in business for 10 years or less. However, there was a significant percentage (23%), especially in New Brunswick (29%), which had been in business for more than 20 years.

**Gender.** Less than a third of respondents were woman (28%) and they differed from the overall group of respondents in that they were younger and had been in business for a shorter period of time (44% under the age of 41 and almost 40% in business less than 5 years). No doubt, both these points reflected the growing number of women starting businesses in recent years. Differences in types of ventures and support will be discussed later.

A number of additional observations can be made concerning the profile of Acadian entrepreneurs. Role models, in particular

self-employed parents, did not appear to be a major influence in the decision to establish a business. In fact, almost 60% of respondents indicated that their parents were employed in salaried positions. The most important motivations for going into business were personal and related primarily to the need to achieve and to be in control. Encouragement from others, including parents, friends and relatives was relatively unimportant.

A final observation concerns the issue of succession planning. More than half of the respondents indicated that they were planning for who would succeed them. This relatively high percentage may reflect the fact that survey respondents were both highly educated and older.

### **Profile of Entrepreneurial Ventures**

The businesses operated by francophone entrepreneurs in Atlantic Canada exhibited the following profile:

- 56% incorporated
- 70% family-owned
- 22% export outside the region
- 14% export outside the country
- 73% started from scratch
- 55% service sector
- 52% sales less than \$500,000

**Ownership Structure.** The percentage of businesses that were incorporated (56%) was similar to the percentage reported earlier that were more than 10 years old. Further, the propensity to incorporate increased as the size of the business increased. Although a significant percentage of the businesses were family-controlled, more than one-third had partners.

**Markets.** More than 35% of the firms exported outside the region (14% outside the country) and such exports accounted for approximately 22% of total sales.

**Start-Up.** Almost three quarters of the firms were started from scratch.

**Industry Sectors.** The service sector was the preferred choice of the majority of francophone entrepreneurs (55%) with the tourism and secondary sectors a distant second and third choice at 17% and 16% respectively. Only 3% were in the primary sector.

**Revenues.** While most firms had revenues of less than \$500,000, almost a third generated in excess of \$1 million in annual sales. Professional services firms such as accounting and consulting businesses, which accounted for 30% of the total, were heavily concentrated in the less than \$500,000 range (87%).

A number of additional observations can be made concerning the profile of businesses operated by francophone entrepreneurs. The concept of multi-firm ownership appeared to be well established in the francophone community. More than 43% of Acadian entrepreneurs owned more than one business. Not surprisingly, the larger the size of the main business, the more likely it was for the owner to have had more than one business. Similarly, entrepreneurs with more experience were more likely to be multi-firm owners.

Firms owned by female Francophones tended to be smaller with most having sales of less than \$100,000. An even greater percentage (65%) of females operated in the service sector and no females owned businesses in the secondary sector. Firms owned by females were less likely (21%) to generate revenues

outside the region and more likely (77%) to be owned by single-firm owners.

## **Financing and Francophone Entrepreneurs**

A significant component of the study dealt with the area of financing, including requirements for and sources of start-up capital, current financing sources and financial requirements, the role of financial institutions, satisfaction with the sources of financing and financing problems.

Start-up capital requirements were fairly small; 36% of francophone entrepreneurs started their businesses with less than \$15,000 and 63% started with less than \$50,000. If only first businesses were included, the percentages increased to 44% and 70% respectively. Equity represented less than half of the start-up capital for most businesses, especially those with a total capitalization of less than \$100,000. Not surprisingly, personal sources such as the owner, family and friends accounted for more than half of the start-up capital followed by the chartered banks at 17%. No other source exceeded 8%.

Turning to current capitalization, two observations are noteworthy. Firstly, businesses appeared better capitalized at the time of the study than at start-up as evidenced by the increase to 64% for firms where equity represented most of total capitalization. Secondly, the distribution of current financing sources remained virtually unchanged from start-up, with the exception that retained earnings became an important source of equity.

Concerning the need for financing, almost 60% of respondents indicated that they were currently looking for financing with most needing amounts of less than \$100,000. Firms in the secondary and professional services sectors were more likely to

need new capital, as were export-oriented firms. The desire to expand and the need for working capital appeared to be the two primary reasons for seeking additional financing. Expansion was tied closely to requirements for funds in excess of \$100,000 while working capital requirements were usually for amounts of less than \$100,000. There was a definite preference for debt financing (81%); however, approximately 18% of respondents indicated they were looking for equity. Those in the market for equity required funds primarily for purposes of restructuring, exporting and research and development rather than for working capital and expansion purposes.

The survey explored the role of financial institutions, in particular the caisses populaires, chartered banks and the Business Development Bank of Canada (BDC), in supporting francophone businesses. It also reviewed levels of satisfaction with the various services provided by these institutions. The chartered banks and the caisses populaires were the primary institutional suppliers of capital to Acadian businesses, followed by ACOA and the BDC. The caisses populaires appeared to be the preferred choice for firms in the tourism and traditional service sectors, smaller firms and firms that were 6-10 years old. The chartered banks appeared to be the choice of service firms and older, more established and larger firms. The profile of BDC francophone clients included firms in the services and secondary sectors, very small firms and firms that were either very new or well established.

Overall, the levels of satisfaction with institutional sources were positive, with ACOA leading the group followed closely by the caisses populaires. More specifically, 83% of respondents approved of ACOA's services and almost 90% found their collateral requirements to be reasonable. Also of particular note were the high levels of satisfaction expressed by the very small clients of the caisses populaires. The chartered banks, the BDC

and the trust companies were all rated below average. The levels of dissatisfaction appeared to be greater for small firms and for firms in the professional services, secondary and tourism sectors. The sources of the dissatisfaction appeared to be related to institutional concerns with collateral, inventories and seasonality. Interestingly, the highest levels of satisfaction were reserved for non-institutional sources of capital, such as suppliers, partners, and investors.

Acadian entrepreneurs were asked to consider the difficulties they faced raising capital in 1994-95 and the difficulties they faced prior to 1990. Not surprisingly, in light of the recession, the percentage indicating that they had encountered problems looking for money increased from 69% to 78% over this period. However, the nature of the problems encountered and their order of importance remained virtually unchanged (Table 4.3). The requirement for a personal guarantee continued to be the most significant financing problem. High debt ratios and a lack of profits were problems encountered by a growing percentage of respondents and were largely responsible for the increase in respondents who encountered problems looking for money.

An examination of financing problems by industry sector and the amount of money required revealed that firms in the tourism sector accounted for the highest proportion of businesses experiencing financing problems. The lack of collateral, insufficient profits and the perception of this being a poor sector of the economy took on increasing significance for firms in this sector. Firms in the secondary sector experienced greater difficulty with sources of capital, a problem that is directly related to the profitability and debt ratio problems experienced by firms in this sector. Firms looking for smaller amounts of capital experienced more difficulties with personal guarantees and investor control. Perceptions of a poor sector of the

**Table 4.3**  
**Problems Encountered in**  
**Looking for Money**

	1994-95	prior to 1990
	%	%
Personal guarantee	50	48
Debt ratio too high	29	14
Insufficient profits	23	11
Lack of sources of capital	18	15
Poor sector of the economy	14	9
Insufficient collateral	12	9
Investor wanted control	7	7
Lack of experience	5	11
Being a woman	2	1
No problem	22	31

Source: Acadian Entrepreneurship: Its Sources, Growth and Future, 1996

economy and concerns with too high a debt ratio became more problematic as the requirement for funds increased.

A number of additional comments relate to differences in the financial experiences of female entrepreneurs. More than half of Acadian firms started by females had an initial capitalization of less than \$15,000 and 30% remained in that category. Start-up financing from family and from caisses populaires appeared to be more important for females than for males. The caisses populaires also appeared to be more important sources for females over time while the chartered banks appeared to decrease in importance, especially when compared to male entrepreneurs. In terms of requirements for capital, females were looking for smaller amounts, had less of a need for working capital, were more interested in funds for research and

development and had a definite preference for grants rather than equity. Finally, females encountered the same problems as males in finding capital, although insufficient collateral appeared to be more of a problem for females while the problem of too high a debt ratio was less problematic. Further, it is noteworthy that no females indicated that they were "very satisfied" with their relationships with their financial institutions.

### **Small Business Support Structures**

In addition to financial support, the survey included a section dealing with marketing support, advisory boards and community attitudes. As indicated in Table 4.4, a significant percentage of respondents did not use outside marketing support. Private sector agencies and a formal marketing plan were the only forms of assistance cited by 25% or more of respondents. Smaller firms were less likely to use marketing support but those that did, tended to rely on government assistance. As firms grew and needed to develop professional marketing programs, they turned first to marketing agencies and next to a formal plan. Firms involved in exporting were more likely to use marketing support, especially dedicated staff, than non-exporters. In addition, the very large export-oriented firms also relied on government assistance.

Only one-third of respondents indicated having a board, either of directors or advisory. However, an additional 23% responded to the question concerning the contribution of board members, suggesting that the percentage with a board may be somewhat higher. The board of directors was a more popular option than an advisory board, although advisory boards were preferred by medium-sized businesses. The very small firms (sales less than a \$100,000) and the very large (sales more than \$5 million) were less likely to have a board while entrepreneurs with more than 10 years of experience were more likely to

establish one. It is interesting to note that the internal board members, such as spouses, employees and partners, were considered to make the most valuable contributions. However, external members such as accountants and investors were rated more highly than lawyers, family, business contacts and consultants.

**Table 4.4**  
**Marketing Resources**

	%
No assistance	44
Private sector assistance	32
Formal plan	27
Government assistance	19
Employees assigned solely to marketing	16

Source: Acadian Entrepreneurship: Its Sources, Growth and Future, 1996

In responding to the question concerning the community's attitudes towards entrepreneurship, francophone entrepreneurs expressed mixed opinions. They felt their communities had positive attitudes towards the following aspects of entrepreneurship: business success of local entrepreneurs, attracting businesses and creating jobs, instilling an entrepreneurial spirit in students, improving the work ethic, and increasing the likelihood of individuals assuming responsibility for their own development. However, entrepreneurs believed their communities were somewhat neutral in their attitudes towards business networking and mentoring and held generally negative attitudes toward entrepreneurs facing difficulties. The bottom line for the entrepreneurs was that their communities supported winners but were not very tolerant when the going got tough.

## Barriers to Start-Up and Growth

Based on the results of the survey and the consultations with entrepreneurs and key informants, the report reached a number of conclusions and made a number of recommendations in the areas of financing and growth, entrepreneurial culture, and competence, training and advice. The conclusions have been summarized and are presented in Table 4.5 as barriers that need to be addressed in order to facilitate the start-up and growth of businesses owned by Acadian entrepreneurs.

**Table 4.5**  
**Barriers to Start-up and Growth**

- 
- |     |  |
|-----|--|
| 1.  | Low commitment to growth                       |
| 2.  | Low level of risk-taking                       |
| 3.  | Ownership closely held                         |
| 4.  | Lack of local investment                       |
| 5.  | Lack of venture/risk capital                   |
| 6.  | Lack of good venture proposals                 |
| 7.  | Lack of funds for new, small firms             |
| 8.  | Lack of effective investment mechanisms        |
| 9.  | Overreliance on government assistance          |
| 10. | Absence of role models                         |
| 11. | Limited community support for entrepreneurship |
| 12. | Limited use of support networks                |
- 

Source: Acadian Entrepreneurship: Its Sources, Growth and Future, 1996

A review of the list reveals that the barriers can be grouped into three key areas: entrepreneurial attitudes, capital markets and support structures. Entrepreneurial attitudes, as reflected in the first three items, refer to the willingness and the desire of entrepreneurs to grow. The existence of too many firms owned by individuals who were satisfied with the status quo and who resisted sharing ownership is an issue that must be addressed.

Similarly, there are concerns with all three of the critical components of a vibrant capital market: risk capital, investment opportunities and information. Items 4-9 on the list combine to present serious barriers to the flow of capital required to support a growing small business sector. Finally, the last three items on the list indicate not only gaps in the support structure but some resistance on the part of francophone entrepreneurs to utilizing the support that is available.

## **Future Directions**

In order to address the barriers noted above, the report made a number of specific recommendations. These recommendations were directed primarily to the CENB; however, it was noted that implementation would depend on a significant level of public/private partnering and collaboration. A list of these recommendations appears in Table 4.6.

It is evident on review of the list that many of the recommendations build on existing infrastructure and relate primarily to the need to increase awareness, share information, explore opportunities and utilize existing resources more effectively. Knowledge, networks and mentoring are important underlying themes. Other recommendations such as those related to improvements in the flow of capital to small growing firms may require more significant structural changes. In any event, overcoming barriers to growth will require multiple approaches targeted towards potential entrepreneurs, existing entrepreneurs, potential investors, financial institutions and intermediaries, government and society at large.

**Table 4.6**  
**Overcoming Barriers to Growth**

- 
- Promote the advantages of growth
  - Increase awareness of financing alternatives
  - Increase awareness of sources of financing
  - Encourage investing at the local level
  - Establish a mechanism to encourage investment
  - Implement a matchmaking service at the local level
  - Put more emphasis on business plans
  - Lobby government for small business loan support
  - Encourage the BDC to emphasize micro lending
  - Encourage mentoring programs for entrepreneurs
  - Promote the use of boards and business contacts
  - Encourage networking among entrepreneurs
  - Increase marketing information and support
  - Increase awareness of the role of entrepreneurship
  - Promote awareness of youth initiatives
- 

Source: Acadian Entrepreneurship: Its Sources, Growth and Future, 1996



# CHAPTER 5

## ENTREPRENEURSHIP AND YOUTH

The importance of fostering an enterprising culture among our youth and encouraging them to consider the option of an entrepreneurial career cannot be overstated. While sweeping social and economic changes have had significant effects on society generally, the impact on young people has been especially pronounced. Increasing unemployment and poverty among today's youth have resulted not only in the need to encourage young people to consider entrepreneurial careers but also to provide them with the support structure to facilitate such endeavours.

The significance of entrepreneurship among young people is aptly summarized in a report of the Canadian Youth Foundation. The report, in suggesting options for addressing the problem of youth unemployment, states that while entrepreneurship is not **the** answer to the problem, it is "one way of beginning to address longer term social and personal issues affecting youth and the employment marketplace."<sup>32</sup> Average unemployment rates of between 20-29% for young people in Atlantic Canada (Table 5.1) reinforce the magnitude of the problem in the region. The report further states that "The drive and self-determination of young Canadians to start their own businesses demonstrates an important shift away from the climate of dependency that has been demonstrated so often in recent Canadian experience."<sup>33</sup>

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<sup>32</sup> *Youth Unemployment: Canada's Hidden Deficit*, 1995, published by the Canadian Youth Foundation, Ottawa, p.ii.

<sup>33</sup> *Ibid.* p.17

**Table 5.1**  
**Unemployment Rates for Atlantic Canada**  
**for Ages 15-24**  
**1990-1995 Average**

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	%
Nova Scotia	20
New Brunswick	20
Prince Edward Island	21
Newfoundland and Labrador	29

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Source: Labour Force Statistics, Statistics Canada

Notwithstanding the positive impact of an entrepreneurial career strategy on employment opportunities for young people, there is evidence that today's youth represents a generation of reluctant entrepreneurs who opt for entrepreneurship only as a last resort.<sup>34</sup> Further, although there are a growing number of initiatives designed to encourage the growth of entrepreneurship among youth<sup>35</sup>, there has been a lack of research documenting the motivations, characteristics and needs of young entrepreneurs and the challenges they face when attempting to start businesses.

A 1995 report by the Atlantic Canada Opportunities Agency (ACOA)<sup>36</sup> represents one of very few empirical research studies on young entrepreneurs in the country. The report is based on

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<sup>34</sup> *Youth Unemployment: Canada's Rite of Passage*, 1995, published by the Canadian Youth Foundation, Ottawa.

<sup>35</sup> *Support Programs for the Development of Young Entrepreneurs: Best Practices*, 1995, published by the Atlantic Canada Opportunities Agency, Moncton.

<sup>36</sup> *Characteristics and Needs of Young Entrepreneurs and Young Persons Wanting to Become Entrepreneurs in Atlantic Canada*, 1995, published by the Atlantic Canada Opportunities Agency, Moncton (unless otherwise indicated, the data in this chapter are taken from this report).

surveys of existing young entrepreneurs and young people who want to become entrepreneurs, as well as on a number of interviews with representatives of the banking community and small business support organizations.

While the purpose of the ACOA study was to examine the supply of, and demand for, business support programs designed to meet the specific needs of young entrepreneurs, the report provides some useful insights into the profile of young entrepreneurs and their businesses, their motivations for establishing ventures and the barriers they faced at the start-up and growth stages of their businesses. This report and the two produced by the Canadian Youth Foundation serve as the basis for much of the following discussion of youth and entrepreneurship in Atlantic Canada.

### **Profile of Young Entrepreneurs and Their Businesses**

The ACOA study, although based on a sample of only 46 existing and 46 potential entrepreneurs<sup>37</sup>, provided some useful information concerning the demographic profile of young entrepreneurs in the region. The average age for young entrepreneurs at start-up was less than 22 and although there was only a slight difference in the ages of males and females, a significantly higher percentage of males started their first businesses as teenagers. Females accounted for over 30% of the total of young entrepreneurs and aspiring entrepreneurs.

The proportion having some post-secondary education was over 80% with more than half having completed a community college or university program.

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<sup>37</sup> Represents a response rate of 20.6% for each group.

In terms of work experience (Table 5.2), the overwhelming majority (70%) of the survey participants had worked in small private sector firms, on average approximately 4.5 years, before venturing out on their own. However, there were some notable differences between the actual entrepreneurs and the aspiring entrepreneurs. A greater percentage of the aspiring entrepreneurs had worked for large firms in the private sector and for government. In addition, a greater percentage of this group were either unemployed or on Workers' Compensation.

**Table 5.2**  
**Type and Duration of Employment**  
**(Aspiring Entrepreneurs)**  
**or Employment Prior to Business Start-up**  
**(Established Entrepreneurs)**

Previous Employment	Established Entrepreneurs		Aspiring Entrepreneurs
	Type (%)	Duration (years)	Type (%)
Large private sector	14.7	6.4	25.0
Small private sector	70.6	4.7	59.1
Private sector*	5.9	4.0	2.3
Government	2.9	5.0	13.6
School	5.9	n.a.	n.a.

*\* Employed by private sector firm, but size of firm not indicated*

Source: Characteristics and Needs of Young Entrepreneurs ...

## Multi-firm Owners

Forty percent of the entrepreneurs in the study had established more than one business while the remaining 60% were operating their first and only venture. A number of interesting findings relate to the comparison between these single-firm and multi-

firm owners. Young entrepreneurs who owned more than one business were more likely to have started their first business at an earlier age, usually during their school years, as compared to single-firm entrepreneurs who usually waited until after graduation. In addition, multi-firm owners had an average of five years of entrepreneurial experience, nearly twice that of the single-firm owners. However, perhaps even more noteworthy are the differences that appeared to exist between the two groups in terms of firm size, industry sectors and ownership structure.

Measures of firm-size included both sales and number of employees. In both cases there appeared to be a strong correlation between larger size and multi-firm entrepreneurs. In the case of sales, the average for the multi-firm group was approximately \$600,000 which was in the order of four to five times that of the single-firm group (\$125,000). The employment generated by the multi-firm entrepreneurs was also significantly greater (approximately 50%) than that for single-firm owners (Table 5.3). In fact, more than half of the multi-firm group had more than five employees compared to less than 20% of the single-firm category.

**Table 5.3**  
**Employment Distribution**  
**Single-Firm versus Multi-Firm Owners**

Employees	Single-Firm Owners		Multi-Firm Owners	
	#	%	#	%
None	7	26.9	1	5.9
1-5	14	53.9	7	41.2
6-10	3	11.5	5	29.4
11+	<u>2</u>	<u>7.7</u>	<u>4</u>	<u>23.5</u>
Total	27	100.0	17	100.0

Source: Characteristics and Needs of Young Entrepreneurs ...

A second area of comparison between the multi-firm and single-firm entrepreneurs related to choice of industry sector. The areas of choice for single-firm entrepreneurs were retail (37%) and personal services (30%). Multi-firm owners, on the other hand, tended toward higher growth industries such as manufacturing (39%) and business services (22%); although a significant percentage (22%) operated in the retail sector.

Multi-firm entrepreneurs were more likely to either incorporate or take on a partner for their first venture than were single-firm entrepreneurs (33.3% versus 25.9%). Multi-firm entrepreneurs also exhibited a high propensity to incorporate over time; incorporation by multi-firm owners grew from an initial 22% to 80% in their current businesses. Finally, males were more likely to be in the multi-firm category than females.

In terms of industry sectors and types of ventures, the business interests of the young entrepreneurs responding to the survey differed from the normal distribution of small businesses in the region in a few areas. Businesses in the manufacturing sector, which represent only 5% of all small businesses in Atlantic Canada, were the choice of over one-third of young entrepreneurs. The study further reports that these young entrepreneurs operated manufacturing businesses that produced a broad range of products including such items as blaster bags, dental prothesis, clothing, musical instruments and electronics.

Similarly, over 30% of young entrepreneurs were pursuing ventures in the retail sector, which was more than twice the average for all small businesses in the region. Examples of retail products included sporting goods, hockey cards, clothing and computers. The service sector, in particular business services and personal services, was another popular area of endeavour for young entrepreneurs. The rate of participation in personal services was comparable to the average for all firms in the

region, while the interest in business services by young people appeared to be twice that for all small firms. Examples of service firms operated by young entrepreneurs included video production, printing, bookkeeping and marketing research.

Respondents appeared to be under-represented in both the resource-based and construction sectors when compared to the averages for all Atlantic small firms.

## **Motivation for Establishing Ventures**

The Canadian Youth Foundation report<sup>38</sup> cites two reasons for young people getting involved in starting their own businesses: as a final option to dealing with their employment prospects and to have more control over their future. Young entrepreneurs responding to the ACOA survey expressed a similar need for independence citing "being my own boss" as the second most important reason for becoming self-employed. However, the most important motivating factor for this group was personal accomplishment.

In contrast to the Canadian Youth Foundation report, participants in the ACOA study did not report the lack of job opportunities as a significant influencing factor. In fact, the lack of jobs ranked ninth on a list of eleven factors cited as motivations for self-employment. Other important motivators included the opportunity to make more money, higher earnings potential, flexibility, market opportunity and encouragement from others. The two least important factors were previous employment and family tradition. Overall, the findings of the ACOA study are highly consistent with other research on

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<sup>38</sup> *Youth Unemployment: Canada's Hidden Deficit*, 1995, published by the Canadian Youth Foundation, Ottawa.

entrepreneurial motivation for youth<sup>39</sup> and for all Canadian entrepreneurs<sup>40</sup>.

Closely related to motivations for establishing ventures is the issue of key influencers on the decision to become an entrepreneur. Both the existing entrepreneurs and the aspiring entrepreneurs were asked to indicate the level of influence of a number of identified individuals on that decision. Table 5.4 summarizes those ratings for both groups. In both cases, the spouse was clearly the most influential individual; although only 38% of respondents were married. The influence of close

**Table 5.4**  
**Key Influencers on Established and Aspiring Entrepreneurs**

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	<b>Established Entrepreneurs</b> (Average rating)	<b>Aspiring Entrepreneurs</b> (Average rating)
Spouse	2.3	2.4
Parent or guardian	2.9	3.3
Close friend	3.0	2.8
Local business owner	3.5	3.5
Teacher or professor	3.7	3.6
Previous employer	4.0	4.0
Another relative	4.1	3.3

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*Ratings are based on a scale of 1 to 5, with 1 being the greatest level of influence.*

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Source: Characteristics and Needs of Young Entrepreneurs ...

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<sup>39</sup> *Young and Older Entrepreneurs: An Empirical Study of Difference*, 1991, Jean Lorrain and Louis Raymond, Université du Québec à Trois-Rivières.

<sup>40</sup> *Why People Decide to Start a New Business: The Effect of Cultural Values on Entrepreneurs*, 1989, The State of Small Business, Ontario.

friends also received a high rating from both groups. Parents appeared to have considerably greater influence on established entrepreneurs while the aspiring entrepreneurs relied more heavily on other relatives. Overall, 43% of the young entrepreneurs had self-employed parents; however, parental influence appeared stronger for females, half of whom had self-employed parents compared to 39% of the males.

## Barriers to Start-Up and Growth

“Young Canadians are not certain of their ability to become entrepreneurs. The participants in this study are all prepared to consider starting a business....; however, they do not take starting a business lightly. They carefully consider the challenges involved and acknowledge that they are not well equipped, with neither capital nor business experience, to be entrepreneurs.”<sup>41</sup>

The lack of finances and the lack of credibility were the two most significant obstacles cited by young people when starting their businesses. The ACOA study identified the following additional issues in order of importance: lack of information, lack of experience, lack of confidence, lack of education and lack of support. Following is a brief discussion of the major barriers and the approaches taken in an attempt to overcome them.

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<sup>41</sup> *Youth Unemployment: Canada's Rite of Passage*, 1995, p. 27.

## Lack of Financing

Not unlike the general population of entrepreneurs, the problem of accessing financing was clearly the most difficult one. As suggested by the Canadian Youth Foundation<sup>42</sup>, the problem is not only one of raising the necessary capital but also the personal financial risk that the aspiring entrepreneur must often take in order to start their venture. However, to their credit, young people in the ACOA study were able to obtain amounts ranging from less than a \$1,000 up to \$150,000, with the average being slightly less than \$16,000.

In terms of the sources of financing utilized by young entrepreneurs (Table 5.5), approximately 25% of the total capital invested in their first business came from their own resources followed closely by 24% from various federal government departments and agencies. Banks, friends and family and private investors were the only other sources that accounted for 10% or more. The primary source of the “personal contribution” was savings from previous employment (76.2%). However, females obtained a smaller proportion from this source than males (64.3% versus 82.1%) but relied more heavily on gifts from parents and relatives (28.6% versus 14.3%) and on credit cards (21.4% versus 10.7%) than did males. Males indicated accessing a greater percentage of their “personal contribution” from the sale of personal assets (17.9% versus 7.1%).

Interestingly, for those who had started additional businesses (Table 5.6), the banks, trust companies and private investors appeared to take on increasing importance. Nonetheless, personal contributions continued to be a significant source of financing for those who established multiple ventures.

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<sup>42</sup> *Youth Unemployment: Canada's Hidden Deficit*, 1995.

**Table 5.5**  
**Sources of Financing for First Business:**  
**Young Entrepreneurs**  
**Average for All Respondents**

	%
Personal contribution	25.6
Friends and family	14.7
Private investor	11.1
Banks and trust companies	17.4
Credit unions	3.7
Insurance companies	0.0
Finance companies	0.2
Business Development Bank	1.2
Other federal government	22.9
Provincial government	1.4
Other	<u>1.6</u>
Total	100.0

Source: Characteristics and Needs of Young Entrepreneurs ...

Females relied more on their own and their friends' resources than did males, although women also were more likely to utilize sources such as suppliers and partners. Family and friends were the most important sources of financing when the total requirements were very small (i.e. up to \$2,500). For projects that required more than \$25,000, the federal government was the most significant source followed by the banks and credit unions. The personal contributions of the entrepreneurs appeared to be the most significant when the requirements for capital were in the mid-range (i.e. \$2,500 - \$10,000). Private investors appeared to prefer either the very small or the very large projects. Finally, federal government sources were more

**Table 5.6**  
**Sources of Financing for First Business**  
**Single-Firm versus Multi-Firm Owners**

	Single-Firm %	Multi-Firm %
Personal contribution	23.5	28.4
Friends and family	23.4	3.5
Private investor	0.0	25.5
Banks and trust companies	6.9	31.1
Credit unions	6.5	0.0
Insurance companies	0.0	0.0
Finance companies	0.4	0.0
Business Development Bank	2.2	0.0
Other federal government	32.1	11.0
Provincial government	2.1	0.5
Other	2.9	0.0
Total	100.0	100.0

Source: Characteristics and Needs of Young Entrepreneurs ...

frequently cited with larger projects while the provincial governments were cited more frequently with the smaller ones.

A number of additional observations concerning the investment behaviour of the young entrepreneurs in this study are noteworthy. Firstly, on average, the males invested more than twice that of the females in their first business (\$19,163 versus \$9,154). Secondly, the average investment for those who started their business after they were out of school was five times that of those who started their business while still in school (\$23,329 versus \$4,694). Thirdly, of those who started their ventures while still in school, the average investment for those in post-secondary institutions was five times that of those in secondary schools (\$8,513 versus \$1,600). Fourthly, the

average investment in their current venture for those who had started multiple businesses was more than five times that of the average investment in a first business (\$90,938 versus \$15,682).

## **Lack of Credibility**

A lack of credibility was the second most frequently mentioned obstacle encountered by young entrepreneurs. Interviews with representatives of the banking community in the region provided some insight into the reasons underlying this lack of credibility.

Firstly, the bankers indicated that many aspiring young entrepreneurs did not provide well researched and well documented business plans in support of their requests for financing. Projects were often not well thought through and many potential young entrepreneurs did not appear to utilize available programs and services. Secondly, there appeared to be a "widespread opinion by local bank personnel that 'a financing applicant is a financing applicant' regardless of age."<sup>43</sup> As a result, young people lacked the necessary financial resources, particularly the equity, to qualify for a loan. This led to requests from the bankers for personal guarantees that were difficult for these young people to satisfy. Thirdly, the bank officials interviewed were concerned with the lack of managerial and administrative experience of these budding entrepreneurs. They specifically cited the subsequent monitoring problems for the bank associated with working capital loans when there was a general lack of financial management skills. Not unlike the concerns expressed regarding the lack of planning, the bankers wanted to see a strategy in place for addressing these deficiencies.

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<sup>43</sup> *Characteristics and Needs of Young Entrepreneurs and Young Persons Wanting to Become Entrepreneurs in Atlantic Canada, 1995.*

## **Lack of Information, Experience and Education**

The non-financial hindrances noted by young entrepreneurs in the areas of information, experience and education are closely related to each other. They are also consistent with the concerns expressed by the bankers with the lack of preparation and limited managerial experience and skills of young people wanting to start businesses.

Key informants from government departments and agencies and small business support organizations differed from the bankers in their views on the level of business planning conducted by young entrepreneurs. In comparing individuals under the age of thirty with those over the age of thirty, the former were thought to be better prepared in terms of business planning. However, there was agreement with the bankers' view that the younger entrepreneurs were not as well equipped in terms of financial planning and cash flow management. An area of additional concern and one that appeared to be shared by both the young entrepreneurs and the key informants was the lack of marketing-related expertise. While it was acknowledged that there had been improvement in this area, there was still a consensus that young people lacked necessary marketing research and planning skills.

Given the gaps in the areas of financial planning and marketing, it comes as no surprise that these two areas topped the list of needed business assistance identified by young entrepreneurs. However, it does come as somewhat of a surprise that fewer than 40% of the young entrepreneurs (ACOA study) had undertaken any training in these or any other areas related to their businesses and that very few had used training to address their marketing and financial management needs.

## **Lack of Confidence and Support**

With the possible exception of the lack of support noted by aspiring entrepreneurs, neither of these barriers were considered to be significant obstacles for young entrepreneurs. As a result, they were somewhat further down the list of hindrances cited by young people. However, it is noteworthy that representatives from the banks and small business support organizations felt that lack of self-confidence was a major impediment to potential entrepreneurs. Specifically, this lack of self-confidence was thought to inhibit young people to the point where they failed to take advantage of the many services and programs available to them.

Notwithstanding the absence of major constraints expressed by young entrepreneurs in the areas of lack of confidence and support, it is clear that support from a variety of sources was important to the decision to start a business as well as to the new venture creation process. As noted previously, this appeared to be particularly true of the advice and support provided by parents, spouses, relatives and friends. Results from the two studies indicated the considerable influence of this close personal network on the entrepreneurial actions of young people.

## **Overcoming Barriers**

Young entrepreneurs utilized a variety of approaches to overcome the barriers discussed above. However, with the exception of government assistance which was ranked third by aspiring entrepreneurs, both practising and aspiring entrepreneurs relied primarily on themselves and their own determination and perseverance as well as the close personal network cited previously.

The ACOA study posited two explanations for the low incidence of seeking outside help. On the one hand, young

people may have been either unaware of the sources of assistance or how to access them. On the other hand, they may have lacked confidence in the value of these external sources and thus chose not to use them. In either case, while young entrepreneurs are to be commended for their determination and perseverance, there is concern that under-utilizing the support structure may weaken chances for success.

## Sources of Assistance and Support

There is a range of “best practice” services and programs in Atlantic Canada designed to serve the needs of young entrepreneurs, including student entrepreneurs. A 1995 report on support programs for young entrepreneurs<sup>44</sup> provides an extensive, although not all-inclusive<sup>45</sup>, inventory of business assistance programs targeted towards both groups. Student entrepreneurs are defined as “young people who have not completed their education and are running summer or part-time businesses,” while young entrepreneurs are those “who have completed their education and are starting full-time ventures as their career or employment choice.”<sup>46</sup>

Areas covered in the “Best Practices” publication include financial assistance, start-up training and counselling, student venture programs, award and scholarship programs, associations and networking opportunities, and promotional activities and resource materials. A number of these support programs and

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<sup>44</sup> *Support Programs for the Development of Young Entrepreneurs: Best Practices*, 1995, published by the Atlantic Canada Opportunities Agency, Moncton.

<sup>45</sup> Junior Achievement (JA) is one example of an organization whose programs are not included in this publication. Funded primarily by the private sector, JA offers a combination of in-school and after-school programs that served more than 49,000 students in Atlantic Canada during the five-year period from 1990 to 1995 (Source: Junior Achievement).

<sup>46</sup> *Support Programs for the Development of Young Entrepreneurs: Best Practices*, 1995, published by the Atlantic Canada Opportunities Agency, Moncton, p. A.1.

associations are national in scope, such as the "I Want to be a Millionaire" program and the Association of Collegiate Entrepreneurs. However, many are targeted specifically to young entrepreneurs and student entrepreneurs in Atlantic Canada. Table 5.7 includes examples of financial assistance and support programs available in each of the Atlantic Provinces. The 1995 report concludes that there is significantly more support available to student entrepreneurs than to young entrepreneurs and that young entrepreneurs are not a strategic focus in most areas of the country.

In addition, although not necessarily targeted towards youth, there are also traditional sources of assistance available to young entrepreneurs, for example, assistance provided by banks, accountants, lawyers, post-secondary institutions, consultants, business development centres, government departments and agencies and others.

In an attempt to assess the impact of the business support structure on the efforts of young entrepreneurs to establish and grow their businesses, participants in the ACOA study were asked a number of questions relating to membership in, use of, and satisfaction with, various organizations. Firstly, young entrepreneurs were asked to indicate the organizations to which they belonged and then to identify those which had any direct positive influence in terms of preparing them for business ownership. Responses indicated that membership in business associations was generally low and of limited usefulness in preparing young entrepreneurs for being in business for themselves. Junior Achievement, professional associations and Chambers of Commerce were cited by respondents as being the most useful. However, given the small number of mentions, these results should be interpreted with caution.

**Table 5.7**  
**Financial Assistance Programs for**  
**Student and Young Entrepreneurs**  
**in Atlantic Canada (1995)**

- 
- Youth Entrepreneurship Skills (YES) Program  
(Nova Scotia)
  - New Entrepreneur Loan Program  
(Prince Edward Island)
  - Student Venture Capital Program  
(New Brunswick)
  - Youth Venture Loan & Young Entrepreneur Loan  
Programs (Newfoundland and Labrador)
  - Youth Entrepreneurship Program  
(New Brunswick)
  - Graduate Self-Employment Program  
(Newfoundland and Labrador)
- 

Secondly, survey respondents were asked to rate their level of satisfaction with the sources of assistance that they had used for their businesses and to rate a number of identified sources of potential assistance. As indicated previously, young entrepreneurs relied most heavily on those in their close personal networks, namely friends, relatives and parents. Other sources of assistance, in order of importance, were the provincial government, business acquaintances, accountants and the federal government and its agencies. In terms of usefulness, the personal networks were again at the top of the list with the banks and post-secondary institutions at the bottom.

There were some notable differences in the views expressed by the actual entrepreneurs and those of the aspiring entrepreneurs as to whether they would use each of the various sources of assistance. Those already in business were more likely to rely on business acquaintances and accountants in addition to their personal networks. Aspiring entrepreneurs, on the other hand,

expressed preferences for provincial government departments and agencies, the Business Development Bank of Canada and customers and suppliers. They were also more likely to indicate use of federal government departments and agencies, consultants and the banks than were established entrepreneurs.

## **Future Directions**

A number of fairly consistent themes emerged from the ACOA study and the work of the Canadian Youth Foundation. Firstly, more needs to be done to encourage young people to consider an entrepreneurial career option. Young people under the age of 25 still represent only 5% of all self-employed in Canada compared to 20% of all employees. The percentages for those under the age of 35 are 25% and 50% respectively. In all cases, these percentages have changed very little in the past decade.<sup>47</sup> As a result, there is a significant opportunity to increase the number and the proportion of young people interested in entrepreneurship and self-employment. However, that process has to start early with an enhanced focus on entrepreneurship in the education system. While it is generally acknowledged that significant improvements have been made in Atlantic Canada in this area, it is also agreed that more could and should be done. The area of entrepreneurship education will be explored further in the next chapter.

Secondly, young entrepreneurs should be encouraged to utilize external sources of assistance and support in order to minimize the barriers to start-up and growth and to enhance the likelihood of establishing successful ventures. Young people rely primarily on a close personal network of family and friends and their own determination and perseverance to establish their businesses. This approach can and should be complemented with the

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<sup>47</sup> Source: *Characteristics and Needs of Young Entrepreneurs...*

information, advice and assistance available from a variety of established external sources. The challenge is to make those sources more accessible to potential young entrepreneurs.

Thirdly, access to financial assistance must be improved in order to ensure that young entrepreneurs can acquire the capital necessary both for start-up and growth. This constraint is magnified by the lack of credibility afforded these young people, especially by financial institutions. Improved access to capital will require innovative programs targeted to the needs of young people and based on collaborations among key stakeholders.

Finally, the support structure should be modified to ensure that young entrepreneurs are provided with the necessary counselling, training and networking opportunities. The issue here appears to be one of ensuring that the assistance is tailored to the specific needs of young entrepreneurs and available in an appropriate and timely manner.

Based on the conclusions and findings of the ACOA study and two follow-up roundtable meetings of young entrepreneurs and representatives of the small business support network,<sup>48</sup> a number of specific recommendations were made "...on the design of a comprehensive business assistance program to accelerate the development of young entrepreneurs and to increase the number of businesses and jobs created by this segment of the entrepreneurial population."<sup>49</sup> A summary of these recommendations is included in Table 5.8.

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<sup>48</sup> ACOA: *Summary of the Roundtable Meeting on the Development of Young Entrepreneurs*, Halifax, Nova Scotia, April 1995 and *Summary Report of the Senior Level Roundtable on the Development of Young Entrepreneurs*, Halifax, Nova Scotia, August 1995.

<sup>49</sup> *Summary Report of the Characteristics and Needs of Young Entrepreneurs ...*

Since the ACOA study, the Canadian Youth Business Foundation announced their Intervention Program Strategy which is designed to support youth entrepreneurs by delivering services through the Internet and World Wide Web. Further, in May of 1996, ACOA introduced a toll-free hotline in Atlantic Canada to help young entrepreneurs obtain information on programs and services designed specifically for them. The hotline, implemented through the Canada Business Service Centres, provides a single point of access to federal, provincial

**Table 5.8**  
**Summary Recommendations on Young Entrepreneurs**  
**and Young Persons Wanting to Become Entrepreneurs**

- 
- Establish an entry point for business assistance
  - Improve access to financial support
  - Develop modularized "just-in-time" training
  - Establish network and mentoring program
  - Deliver entrepreneurship and business opportunities seminars
  - Provide counselling support and assistance with studies
  - Enhance the focus on entrepreneurship in the education system
  - Increase promotion efforts
  - Target efforts to sub-groups of young entrepreneurs  
 (new graduates, aboriginals, women, etc.)
  - Prepare a young entrepreneurs' handbook
- 

Source: Characteristics and Needs of Young Entrepreneurs ...

and private sector business information sources and referral services tailored to meet the needs of existing and aspiring entrepreneurs between the ages of 18 and 29.

More recently, a report<sup>50</sup> by the Ministerial Task Force on Youth made a number of recommendations to the federal

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<sup>50</sup> *Take on the Future: Canadian Youth in the World of Work*, 1996, Ministerial Task Force on Youth, Ottawa.

government on the development of a national youth strategy. Among the report's recommendations are suggestions designed to encourage the entrepreneurial spirit of youth and to support their efforts to start their own companies. Increased collaboration, mentoring and improved access to capital and information were noted as critical components of any strategy designed to support entrepreneurship among Canadian youth.

# CHAPTER 6

## ENTREPRENEURSHIP AND EDUCATION

It is widely recognised that Atlantic Canada needs large numbers of entrepreneurs; men and women who will assume the risks and commitments of business ownership. Until a relatively few years ago the emergence of these people was left largely to chance. Recently, however, there have been initiatives designed to encourage the development of an entrepreneurial mind-set among the populace, to find ways to make the perception of entrepreneurship as a viable career alternative more attractive, and to enhance the image of business in the public's eye. Further, there is a recognition that we must develop employees who are prepared to share responsibility for the success of the organizations in which they work.

Whether entrepreneurship can be "taught" or "learned" is the subject of much debate. Most would agree, however, that an education system which encourages creativity and self-reliance, which acquaints learners with the role of business and entrepreneurship, and which utilizes non-traditional teaching methods to integrate the community at large with the classroom, is a positive factor in achieving these goals. These approaches are currently being incorporated into enterprise and entrepreneurship education programs delivered at post-secondary institutions, at high schools, and at other levels of the region's school system.

The 1991 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* discussed at length the results of a major study carried out in 1989 by researchers at Mount Allison University and the Université de Moncton

regarding the status of entrepreneurship education in Atlantic schools, particularly at the elementary and high school levels. This project, *Projet Entrepreneurship Project* (PEP), funded by the Atlantic Canada Opportunities Agency, examined the degree to which students were exposed to entrepreneurial concepts and influences and recommended ways that the education system could be modified to enhance the development of an entrepreneurial environment. One of the purposes of this study was to establish data which could be used as a benchmark in measuring the impact over time of efforts made to breed a stronger entrepreneurial culture in the region.

Since the release of the PEP study, all four Atlantic provinces have introduced enterprise or entrepreneurship education into their high school systems. Although approaches to this education vary throughout the region, commonalities include project-based learning, a greater than usual use of guest speakers, utilization of case materials, and a focus on business planning and business and economic issues. Unlike the high school curricula, which tended to be developed independently within each of the four Atlantic provinces, the introduction of enterprise content into the remainder of the school system has proceeded in a more cooperative manner. The Atlantic Provinces Education Foundation (APEF) has coordinated much of this activity, spearheading the development of regional programming, in cooperation with ACOA and the four Departments of Education. Since 1990, there has also been a substantial increase in the number and quality of entrepreneurship programs offered at the post-secondary level throughout the region.

This chapter summarizes some of these developments and includes a discussion of early impacts on the entrepreneurial attitudes of grade 12 students (the end product of the compulsory education system).

## Entrepreneurship Education at Pre-High School Levels

In 1991, the Maritime premiers issued a challenge to their respective Ministers of Education to formulate an initiative for the regional development and implementation of curricula, professional development and in-service programs in entrepreneurship education. In response to this challenge, by 1993 APEF had produced a proposal which was designed to build on progress already achieved in the field by individual provinces, but specifically focused on elementary grades K-6.

The project addressed programming in both official languages. The English language component of the project concentrated on the completion of entrepreneurship learning materials for use in elementary schools, a program which was currently under development by the PEP group at Mount Allison University and the New Brunswick Department of Education. The project also addressed the teacher training and professional development requirements of this new approach to education.

An analysis of the French language curricula identified possible areas where the values, skills and attitudes associated with entrepreneurship could be integrated and also served as a framework for the teacher training and professional development components of a francophone project.

Through the efforts of APEF and the various other partners, the project has met with a good deal of success. The English language program, *Pathways to Enterprise*, was piloted in the region during the 1995 school year, and was set to be integrated into the curricula for grades 3 through 8 in each province by the fall of 1996. The French language program is scheduled to be introduced in grades up to grade 3 in the fall of 1996, and into grades 4-6 by fall, 1997. In addition to the implementation

phase, appropriate training of teachers in both languages has been ongoing.

The original PEP study identified a lack of entrepreneurship education at the elementary level as an important deterrent to the development of an enterprising culture throughout the region. The progress made in the implementation of this initiative should make a substantial contribution toward addressing this deficiency.

### **Entrepreneurship Education in Atlantic High Schools**

The first approaches to addressing the deficiencies in entrepreneurship education identified in the original PEP report took place throughout the region at the high school level. In 1995, the Université de Moncton conducted a follow-up to the survey<sup>51</sup> to draw comparisons between the attitudes of grade 12 students towards entrepreneurship in 1989 and those of 1995 grade 12 students. Although this was not a longitudinal study, in that the groups of students surveyed were different, a reasonable degree of consistency with the 1989 report was attained by surveying students attending grade 12 at the same schools and by using the same survey instrument. The sample sizes were virtually identical, 4,849 in 1989 and 4,864 in 1995. Census data were incorporated to describe and analyse aspects of the economic reality of the localities in which the students lived.

The questionnaire made it possible to collect data on a number of variables intended to measure attitudes towards, exposure to, and experience with entrepreneurship both inside and outside the school environment. These included interpersonal contacts

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<sup>51</sup>*The Intention to Become an Entrepreneur: A Comparison of Two Cohorts of Grade 12 Students in the Atlantic Provinces*, 1996, Draft Report, Université de Moncton, Moncton.

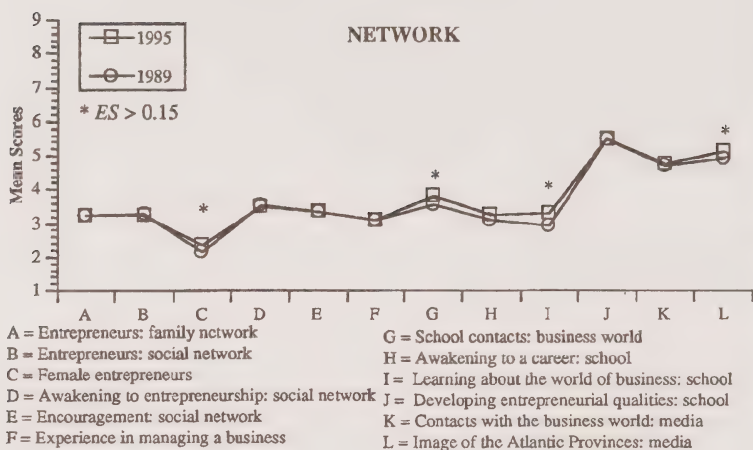
and networks, the intention to become an entrepreneur, personal characteristics and competencies, and students' beliefs with regard to business-related issues. These variables were further divided into measurement scales, as can be seen in Charts 6.1 through 6.4. Students were asked to indicate over a range of 1 (low) to 9 (high) their opinions on each of the scales identified in the questionnaire. The results of this 1995 study are summarized below.

### **Main Results for the Combined Cohorts of Atlantic Canada Students**

Two thirds of the students surveyed in 1995 were 17 years old; slightly more than half were female. Ninety percent were born in the Atlantic region and had spent almost all of their lives there. Approximately one third had experience running their own businesses. A large majority (86%) expressed an intention to pursue post-secondary education, with slightly more than 50% planning to attend university. More than a third would prefer to work outside the Atlantic region; an additional one in five expressed a desire to work somewhere in the region other than their present location. The survey also investigated the demographic profiles of the communities in which the students lived. Unemployment rates in these communities were higher in 1995 than in 1989 (18% vs 16%); however, average household income was substantially higher (\$38, 512 vs \$28,713).

# CHART 6.1

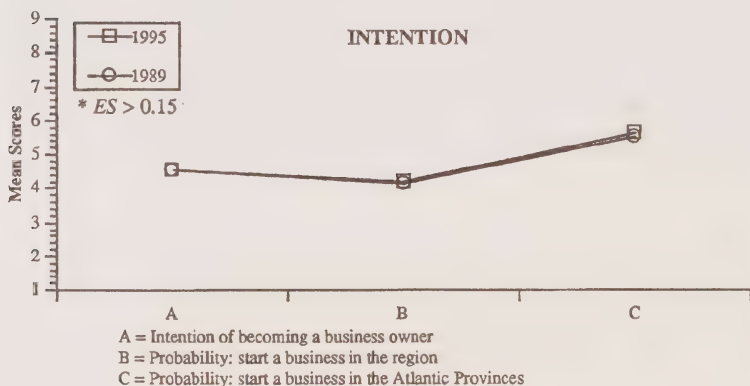
## Atlantic Canada Students



Source: Intention to Become an Entrepreneur

# CHART 6.2

## Atlantic Canada Students



Source: Intention to Become an Entrepreneur

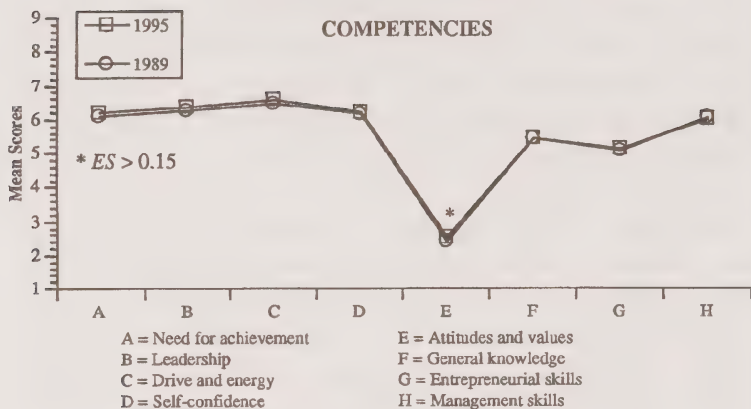
As in 1989, the 1995 cohort reported few contacts with entrepreneurs. On average, they reported knowing 11 entrepreneurs, of whom two were family members. Overall, students felt that the impact of their social milieu in making them aware of entrepreneurship or in providing encouragement to start or acquire a business was moderately weak on a scale ranging from very weak (1) to very strong (9).

In 1989, about 10% of grade 12 students stated they had not been exposed to entrepreneurship-related content in any courses. By 1995, 99.3% of grade 12 students had been exposed to content in anywhere from one to five courses; 45% of these students had learned about entrepreneurship in three or more courses compared to 30% in 1989.

A review of Charts 6.1 through 6.4 indicates that the two groups of students reported similar experiences in school. Contacts with the business world, learning things related to business, and being made aware of entrepreneurship as a career choice were rated as moderately weak. On the other hand, students considered the opportunities provided at school to develop the qualities of entrepreneurs (for example, leadership, problem solving, initiative, self-confidence and the need for achievement) as moderately effective. Students cited the media moderately frequently as a source of information about the business world. Overall, students considered the image of the Atlantic region presented by the media to be rather neutral.

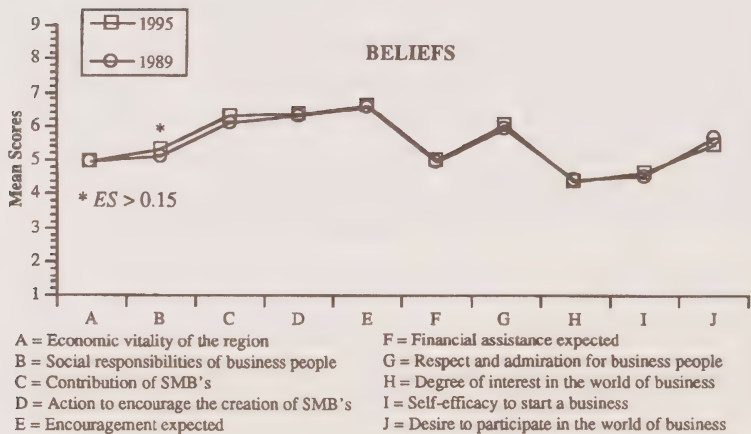
Although students felt the economic vitality of the region where they live was moderate, and had only a moderately positive perception of the degree to which business people fulfilled their social obligations, they felt relatively strongly

CHART 6.3  
Atlantic Canada Students



Source: Intention to Become an Entrepreneur

CHART 6.4  
Atlantic Canada Students



Source: Intention to Become an Entrepreneur

that small and medium-sized businesses make an important contribution to society and that people living in a given region should encourage the creation of new businesses in their area. They felt that should they start a business they would receive a moderately strong level of encouragement and a moderate level of financial support from people they know. While students had a moderately high level of admiration and respect for business people, they rated their degree of interest in business and their personal efficacy to start a business as moderately weak. Students rated themselves as possessing a moderately high level of similarity to persons with entrepreneurial skills in the areas of need for achievement, leadership, drive and energy, and self-confidence.

Despite the relatively positive view of the role of business and their own personal skills, the intent to start a business was rated as moderate. However, many of those that were interested in becoming entrepreneurs were very interested. Approximately one quarter of the students held strong entrepreneurial intentions, with an additional 45% having moderate intention scores. The probability that students would locate a business in the region where they currently resided was moderately weak; however, the probability that it would be located somewhere in the Atlantic provinces was somewhat higher.

### **What's Changed Between 1989 and 1995?**

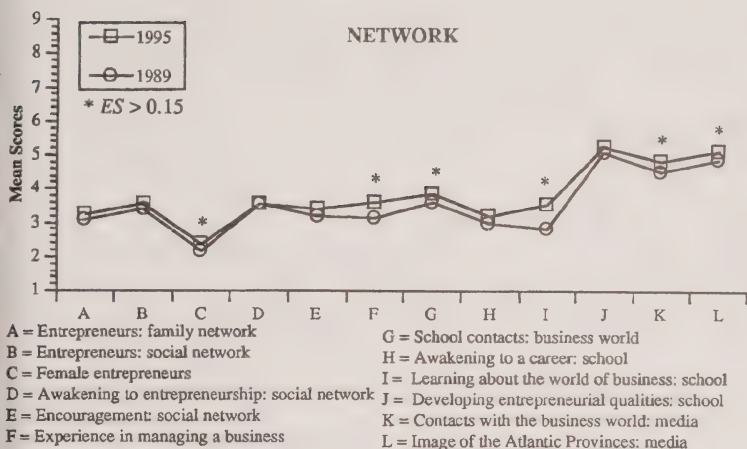
One of the more interesting sections of the *Intention to Become an Entrepreneur (IBE)* report is the comparison between the 1989 and 1995 cohorts with respect to their networks of contacts with entrepreneurship, their intention to become entrepreneurs, and their competencies and beliefs. A review of Charts 6.1 through 6.4 indicates that, in the Atlantic region as a whole, there have been only a few significant changes. The 1995 cohort felt that they were exposed to the business world

to a greater extent than the 1989 cohort did, and that they had a greater knowledge of female entrepreneurs. They also felt that the media was marginally more positive in its reporting of economic issues in the region and tended to have a slightly higher regard for the manner in which business people carried out their social responsibilities. In the important areas of intention to become a business owner and competency, however, the 1995 students were almost identical with the 1989 cohort.

The IBE report also provided valuable information with regard to English and French students by province. Although the results for the region as a whole were relatively stable, changes were observable within some of these sub-groups. This is encouraging for the population as a whole, since significant changes were not expected in the short term given the large numbers of students surveyed, the fact that not all were exposed to entrepreneurship education, and the fact that these programs had not been delivered to the same extent and over the same time frame in all of the Atlantic provinces. It should also be kept in mind that efforts to promote entrepreneurship were intended to bring about long-term attitude changes and had been in place for a relatively short period of time.

Chart 6.5 reveals that anglophone students in New Brunswick, for example, had more opportunities to learn about business than they did in 1989. These students also knew a slightly higher number of female entrepreneurs, had slightly more experience in managing their own businesses, and had been in contact with the business world slightly more often. They also had a slightly more positive perception of the degree to which business people fulfill their social responsibilities and had perceived slightly stronger self-efficacies to start businesses.

CHART 6.5  
New Brunswick Anglophone Students



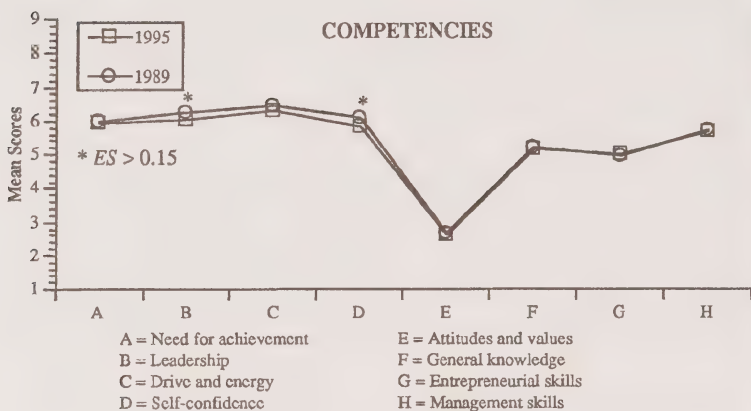
Source: Intention to Become an Entrepreneur

There were few changes between the two surveys of francophone students in New Brunswick, except that the 1995 group felt that they received slightly more frequent contacts with the world of business at school and perceived a slightly more positive image of the Atlantic Provinces as presented by the media.

In contrast with the relatively positive experience of New Brunswick Anglophones, results among Nova Scotia Anglophones appeared to favour the 1989 group. Students in 1995 reported that they were less exposed to opportunities to develop entrepreneurial qualities at school and rated their knowledge of entrepreneurship and management skills lower than the 1989 group. They had a slightly more positive perception of the degree to which business people fulfilled their social responsibilities, but were slightly more negative in

assessing the economic vitality of their region and had slightly less desire to participate in business-related activities.

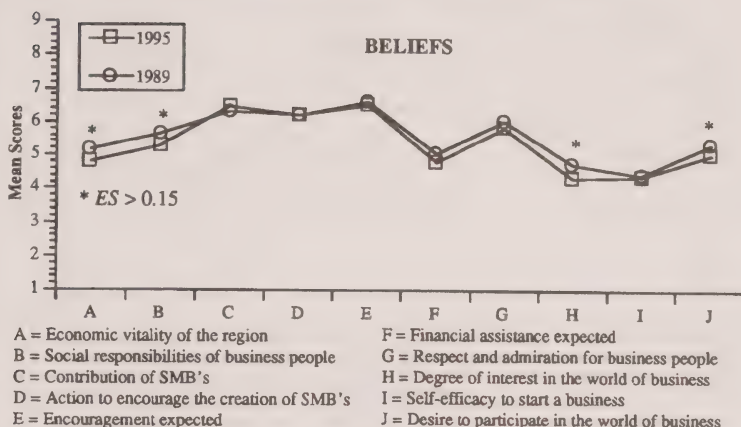
CHART 6.6  
Nova Scotia Francophone Students



Source: Intention to Become an Entrepreneur

Like their anglophone counterparts, francophone students in Nova Scotia were less positive about entrepreneurship issues in 1995 than in 1989. Students in the 1995 group had moderately less experience in managing their own businesses and had a less positive image of the Atlantic region as presented by the media. They were less likely to intend to start their own businesses and, as Chart 6.6 indicates, rated themselves lower in leadership qualities and self-confidence than the 1989 group. Chart 6.7 demonstrates that Nova Scotia francophone students were less positive in assessing the economic vitality of the region, and had less positive beliefs that business people carry out their social commitments satisfactorily, less interest in the business world and a lower degree of desire to participate in it.

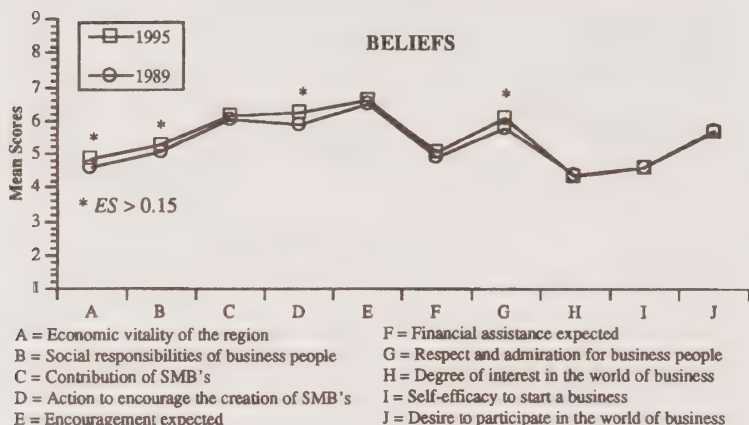
**CHART 6.7**  
Nova Scotia Francophone Students



Source: Intention to Become an Entrepreneur

Anglophone students in Prince Edward Island were slightly more positive in 1995 than in 1989. Although they had less experience in managing their own businesses and had a weaker intent to become an entrepreneur, they had a slightly more positive image of the Atlantic Provinces as presented in the media, and considered their leadership qualities more positively. As Chart 6.8 indicates, they had a higher opinion of the economic vitality of the region, the degree to which business people fulfill their social obligations, the importance of taking action to create more small businesses, and respect and admiration for business people. The report cautions that the results reported for Prince Edward Island Francophones may be statistically unstable because the small numbers of students surveyed in both years might not accurately reflect the attitudes of the entire student population. In any case, the 1995 group felt they were presented with a more positive image of the Atlantic Provinces by the media, but had fewer contacts with the

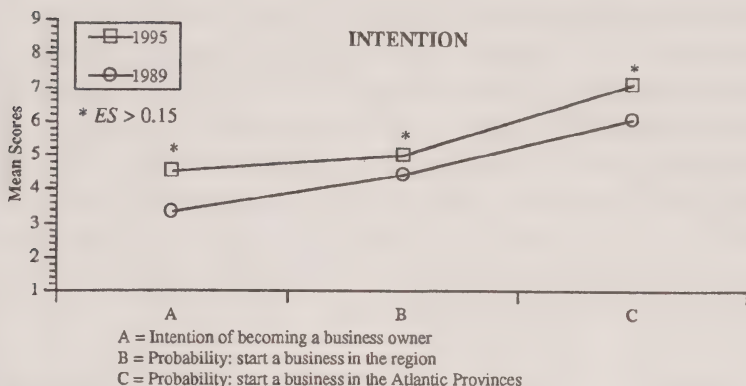
**CHART 6.8**  
**Prince Edward Island Anglophone Students**



Source: Intention to Become an Entrepreneur

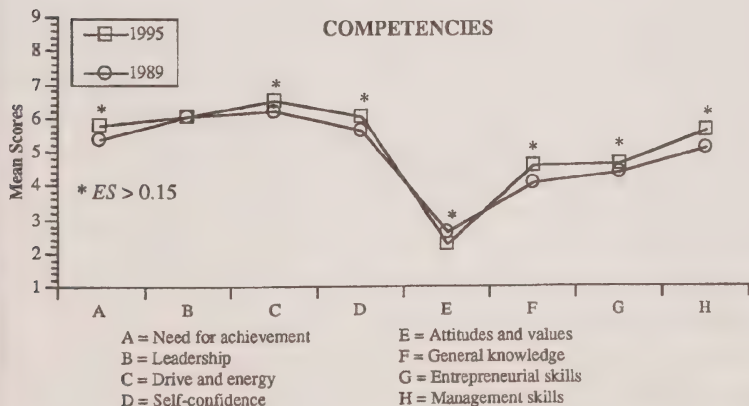
business world through school. The 1995 students knew more entrepreneurs among family members and their social environment, had received slightly more encouragement to go into business, but knew fewer female entrepreneurs and had less experience in managing their own businesses. As Chart 6.9 indicates, they reported a stronger desire to become an entrepreneur and to locate their business in the Atlantic region, possibly where they live. This group rated themselves highly in all of the personal competencies except attitudes and values, and had relatively strong feelings of personal efficacy and desire to engage in business-related activities (Chart 6.10). They also felt slightly stronger than the 1989 group that business people fulfill their social responsibilities, that the creation of new businesses should be encouraged, and that they would receive a high degree of encouragement should they decide to start a business. They had a slightly stronger interest in the world of business and admiration for business people, but were not quite as cognizant of the role of small businesses in the economy.

CHART 6.9  
Prince Edward Island Francophone Students



Source: Intention to Become an Entrepreneur

CHART 6.10  
Prince Edward Island Francophone Students

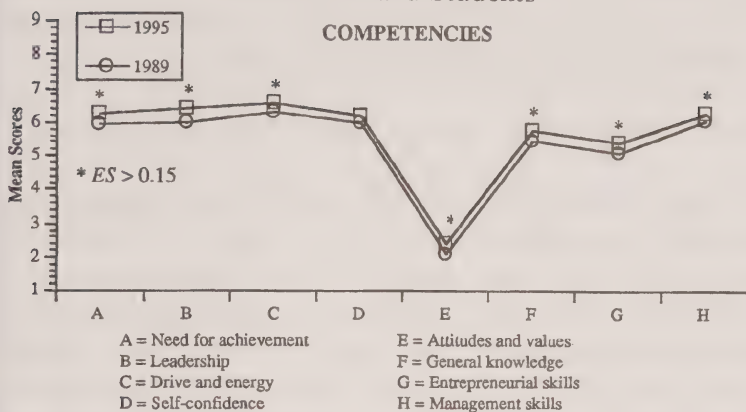


Source: Intention to Become an Entrepreneur

The most significant change between the 1989 and 1995 cohorts took place in Newfoundland. The 1995 students were more likely to know female entrepreneurs, to make contacts within the business world, to learn about business and to be awakened to an entrepreneurial career through school. To a lesser extent they felt school was more successful in assisting them in developing entrepreneurial qualities, they used the media to make contact with the business world, and felt the media was relatively positive in its presentation of the Atlantic Provinces. As Charts 6.11 and 6.12 indicate, the 1995 cohort also rated themselves higher than the 1989 group in all of the competencies and beliefs categories.

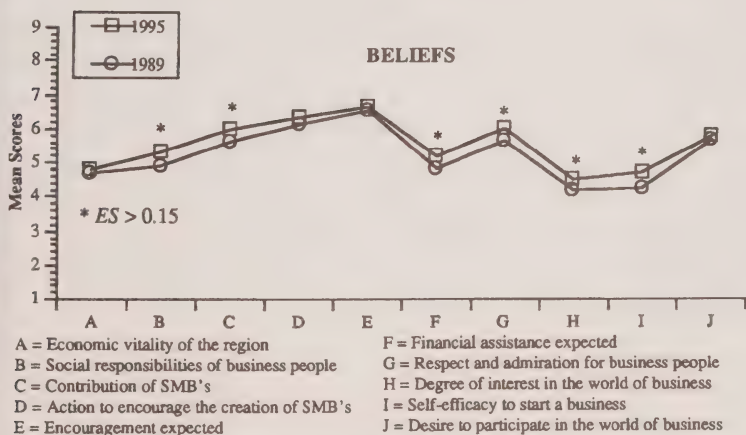
In summary, two groups clearly showed more positive changes than the other groups: the francophone students from Prince Edward Island and the Newfoundland students. Anglophone students from both Prince Edward Island and New Brunswick also showed more positive attitudes, although to a lesser extent. New Brunswick's francophone students tended toward the status quo. Finally, in Nova Scotia, for both the anglophone and francophone students there appeared to be a degree of inertia, or even slippage, in terms of entrepreneurial awareness. This mixed result is puzzling and should be followed up with more in-depth analysis. One possibility for further investigation arises from the fact that although each province has introduced programs in enterprise and entrepreneurship, there may not be consistency in the approaches to the programs delivered, the content and delivery methods utilized, the availability of local examples and teaching materials, and the training available to teachers involved from province to province. In addition, Newfoundland was the first province to begin the process of infusing enterprise/entrepreneurship education throughout the

CHART 6.11  
Newfoundland Students



Source: Intention to Become an Entrepreneur

CHART 6.12  
Newfoundland Students



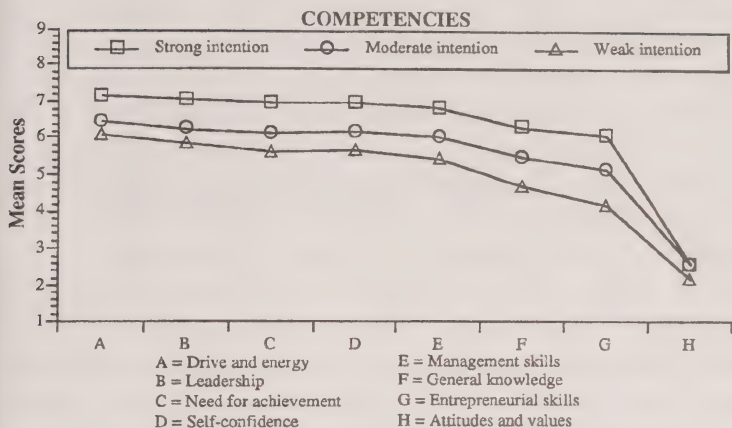
Source: Intention to Become an Entrepreneur

curricula, and to require at least two credits in enterprise education for high school graduation. Because other provinces were later off the mark, their students have not had as much opportunity to be exposed to these programs.

### **What Determines the Intent to Become an Entrepreneur?**

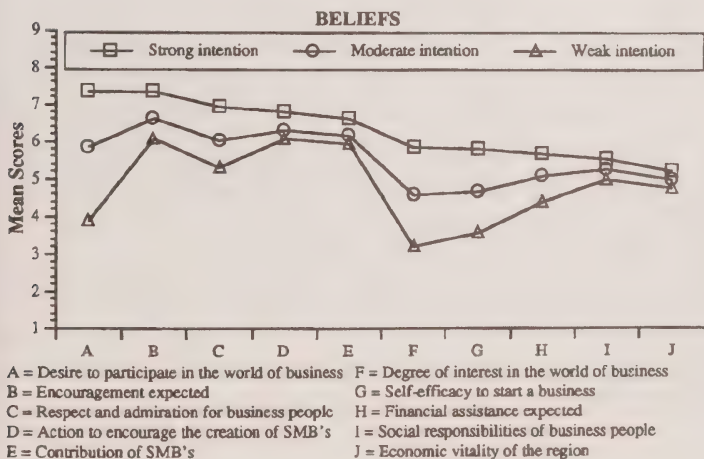
The IBE research group further examined the relationships between an expressed high level of intent to become an entrepreneur and other survey variables to determine which were most closely related. Sociological variables within an area, such as unemployment rates, levels of literacy and average income appeared to play relatively minor roles in determining entrepreneurial intentions. A more significant part was played by students' entrepreneurial experiences, such as awakening to entrepreneurship through social networks or in school. The best predictors, however, were the beliefs and competencies of the students, the most important of which were the desire to engage in business-related activities, the degree that students believed they have the personal competencies often observed in entrepreneurs, feelings of personal efficacy, and knowledge and skills in entrepreneurship (Chart 6.13 and 6.14). It would appear that, from an education perspective, programs that concentrate on the enhancement of these attributes have the greatest impact on development of an entrepreneurial culture. As the IBE report points out, this enhancement may well be a long-term result of entrepreneurship education in schools and of government and institutional initiatives designed to promote entrepreneurship in the media and the community. Thus, it will take longer to produce significant changes in trends.

# CHART 6.13 Atlantic Canada Students



Source: Intention to Become an Entrepreneur

# CHART 6.14 Atlantic Canada Students



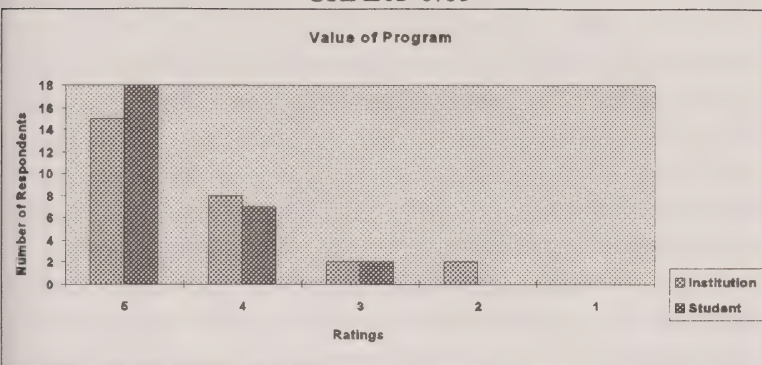
Source: Intention to Become an Entrepreneur

## **Entrepreneurship Education in a Post-Secondary Setting**

The third major component of entrepreneurship education in the Atlantic region consists of programs offered at post-secondary institutions. A recent survey conducted by Memorial University's P.J. Gardiner Institute for Small Business Studies indicates that, in response to a recognition of the growing need for entrepreneurship education, many of these institutions are increasing the program emphasis in this area. The survey was forwarded to 40 community colleges and universities in the Atlantic region. Thirty responses were received, for a return rate of 75%. Twenty-nine of the respondents indicated that they offered small business and/or entrepreneurship courses; over half of these were introduced in the 1990s. These programs tended to be introduced in response to student demand and a need to enhance entrepreneurial skills. There were between 50 and 99 students in a typical program, and enrollments were generally increasing. In addition, one institution, Memorial University, reported an annual enrollment of well over 300 in a compulsory entrepreneurship course within its business program.

Charts 6.15 and 6.16 demonstrate the value and productivity of these programs. Respondents rated the programs as valuable to both the institution and to the student body. Most, in fact, saw the programs as deserving a five, on a scale of 1 (low) to 5 (high). Respondents were also asked to detail the most common outcomes of these programs. Programs were rated highly in terms of the development of business plans and the generation of business ideas. Business start-ups lagged a little, probably because many students have a preference to obtain real world experience as a prerequisite to entrepreneurship. There were a number of different approaches to delivering these programs.

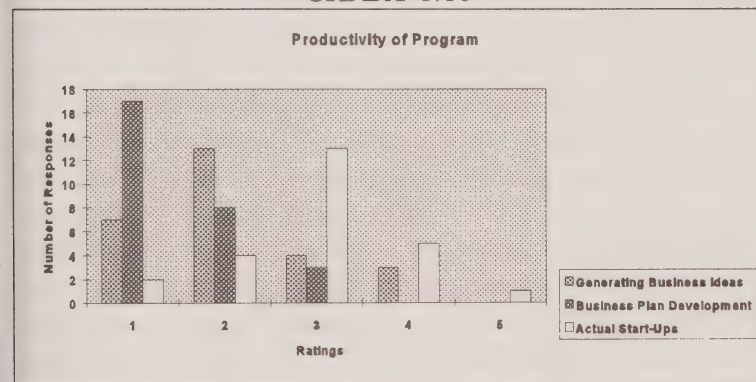
# CHART 6.15



Ratings: 5 = high, 1 = low

Source: P.J. Gardiner Institute

# CHART 6.16



Ratings: 5 = high, 1 = low

Source: P. J. Gardiner Institute

In a few instances, the traditional classroom style, a combination of lectures and case analysis, was used. The majority of programs, however, required the completion of business plans for entrepreneurial projects. Surprisingly few used cases as the main teaching vehicle. Some of the other innovative methods utilized involved student consulting, guest speakers, and work placements. A majority of respondents felt that entrepreneurship should be incorporated into other business subject areas and, indeed, other faculties, but none indicated that this was currently being done to any great extent at their institution. As with the remainder of the courses delivered by the faculty, gender distribution was about equal, and there was little difference between the age and experience level of students.

### **Outreach Entrepreneurship Education and Training**

Twelve of the thirty institutions which responded to the questionnaire indicated they were involved in the delivery of entrepreneurship programs to an audience outside of their usual student bodies. These programs ranged in length from thirty classroom hours delivered over a ten-week period, to forty weeks at thirty-five hours per week. There were usually about 20 students enrolled in the programs; most required that the participants be displaced fishery workers, unemployed individuals, or recipients of other social benefits. Considering the wide range of program lengths, it is not surprising that there were wide variations in the teaching methods, materials, and subject matter of these programs. Ten of the twelve respondents reported that they did not keep statistics on the number or types of businesses started by graduates; however, of the two that did, one reported a start-up rate of over seventy percent, with the other somewhat lower than that. Gender distribution was about equal, with the typical participant holding a high school diploma.

## Summary

The role of education in bringing about social change is widely recognised. The creation of an enterprising or entrepreneurial culture in the Atlantic region presents our education system at all levels with a tremendous challenge. It is particularly interesting to consider the evidence presented in the IBE report of the development of a more entrepreneurial mind-set in high school students in Newfoundland. Although the report does not directly link this change in attitude to that province's high school enterprise education program, it is surely more than a coincidence that this province, first off the mark in the field, is also the first to exhibit such an improvement. Given time, the impact of this approach to education should be felt in the remainder of the region. The introduction of entrepreneurship education into the elementary school system, although in its infancy, should result in an awakening to the development of entrepreneurial attitudes and characteristics at an even earlier stage.

It is also encouraging to note the increase in the number of entrepreneurship programs offered at the secondary level. The interest exhibited in this type of program by students indicates an awareness that entrepreneurship is a valid career alternative, and augurs well for the region. Too often, our best trained graduates of secondary institutions are the first to leave the area. Entrepreneurship offers these people an alternative, an option to stay and participate in the region's development. It is through the education system at all levels that the growth of an entrepreneurial culture will take place.

## **ABOUT ACOA**

### **Building a Stronger Economy Together**

#### **ACOA's mandate**

The Atlantic Canada Opportunities Agency (ACOA) is a federal government economic development organization mandated to work with businesses, business organizations, provincial governments and other federal departments to help create more and better employment opportunities in Atlantic Canada.

#### **Our strategy**

Because new employment is the direct result of business growth, particularly among small- and medium-sized enterprises (SMEs), ACOA seeks to provide people with the encouragement, advice, access to capital and information, and the technology they need to start and expand their own businesses.

#### **Our priorities**

To carry out this strategy, ACOA focuses on five main economic development areas:

- Entrepreneurship – because SMEs generate more than 90 per cent of all new jobs in Atlantic Canada.
- Trade – because every \$1-billion increase in exports creates 11,000 jobs.
- Innovation and Technology – because innovative companies are growing companies, and growing companies create jobs.
- Business Management Practices (BMP) – because formal BMP make companies more productive and resilient.

- Access to Capital and Information – because adequate access stimulates business start-ups and expansions and job creation.

## **Our services**

To meet its objectives in each economic development area, ACOA administers, or is involved in, a number of key programs and activities:

- Business Development Program – designed to help SMEs establish, expand or modernize by offering access to capital in the form of interest-free, unsecured repayable contributions.
- ACF Equity Atlantic Inc. – a \$30-million venture capital fund, designed to address the deficiency in venture capital availability in Atlantic Canada.
- Community-Based Economic Development – Grass-roots efforts by communities, with ACOA's support, to improve their economic conditions.
- Canada Business Service Centres – a network of five centres providing business-related services and products to SMEs and aspiring entrepreneurs in the region.
- COOPERATION Program – federal/provincial, cost-shared agreements designed to improve the environment for economic growth in Atlantic Canada.
- Pan-Atlantic Programs in Entrepreneurship Development, International Business Development and Tourism.

- Advocacy, Coordination and Procurement – continuous efforts to represent the region's interests and to secure more federal government contracting opportunities in the Atlantic provinces.

ACOA is also involved in a number of other activities designed to improve the region's general economic health, such as:

- Canada Infrastructure Works Program
- DND Base closure adjustment activities
- Borden-Cape Tormentine redevelopment programs

## **THE INDUSTRY PORTFOLIO**

ACOA operates within the Industry Canada Portfolio, which includes 13 departments and agencies that report through the Minister of Industry to Parliament, to enhance employment opportunities for Canadians through SME development; trade and foreign investment; innovation and technology; and employment opportunities for young people.









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Opportunities  
Agency**

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Development Program



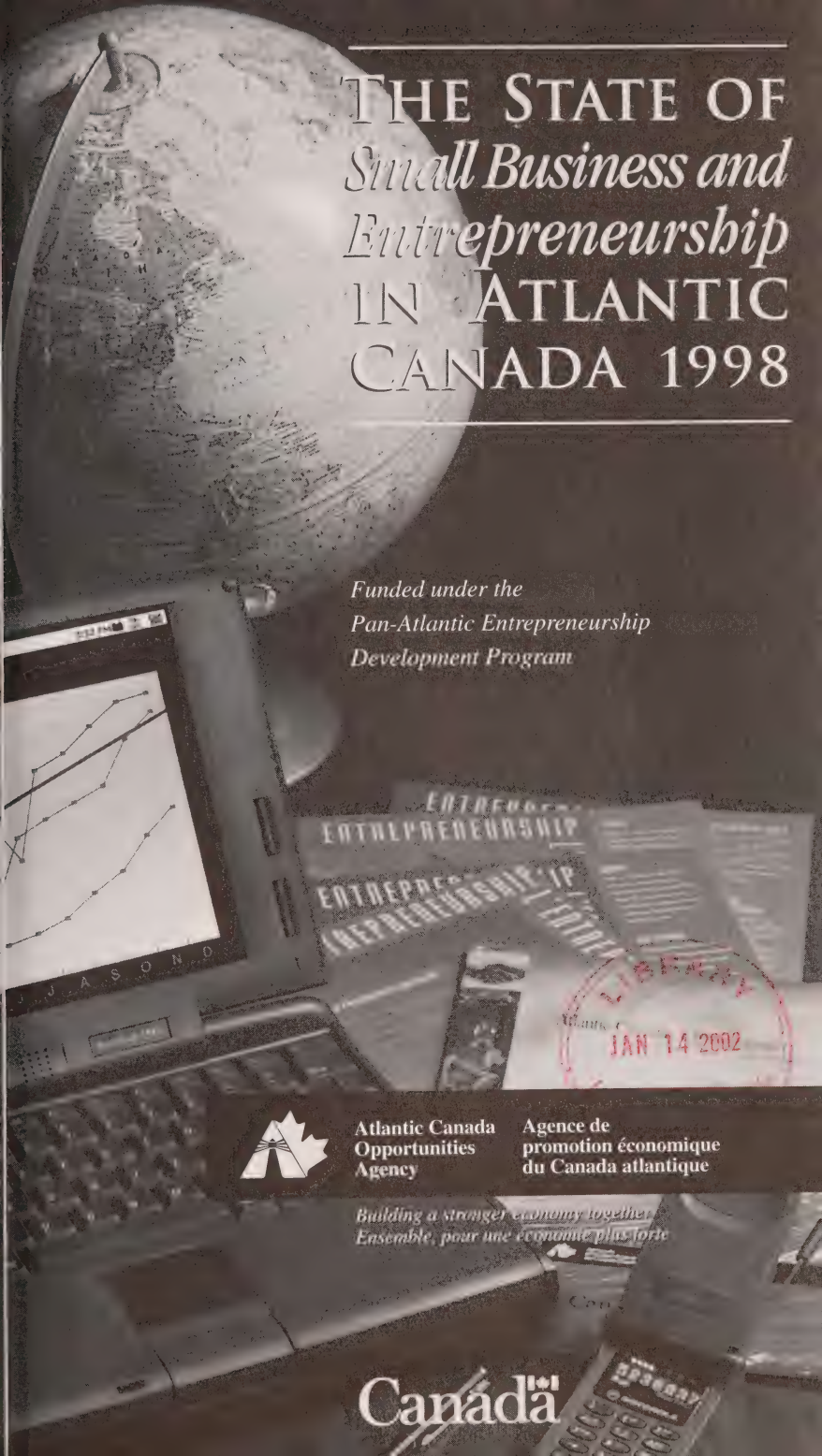
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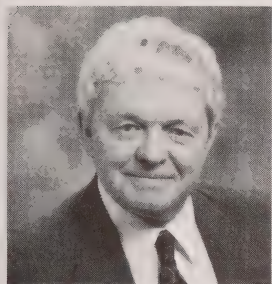
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## Message from the Honourable Fred J. Mifflin



*Secretary of State  
for the Atlantic Canada  
Opportunities Agency*

The Government of Canada is committed to the notion that strong regional economies are essential to a strong national economy. ACOA, as the federal agency responsible for economic development in Atlantic Canada, works closely with other federal departments, the provinces and the private sector to develop economic strategies that help create jobs and contribute to the growth of regional economic capacity.

In addition to investing in the start-up and expansion of small- and medium-sized businesses (SMEs), ACOA has invested strategically in innovation and technology, trade and export development, tourism development, and better business management practices. And, perhaps most significantly, ACOA has made the development of entrepreneurship one of its key priorities, for the simple but compelling reason that SMEs create the majority of new jobs.

In order to understand the impact of entrepreneurship on the Atlantic Canadian economy and to better plan for the future, comprehensive and accurate research is essential. Such research not only shows how entrepreneurship contributes to economic development in the region but also determines the specific type of encouragement and support needed by entrepreneurs.

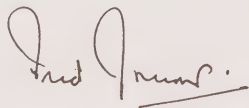
*The State of Small Business and Entrepreneurship in Atlantic Canada* is ACOA's main research publication on the region's small- and medium-sized enterprises and on the people who create and operate them. As in previous years, the report includes statistics and describes the trends and issues related to SMEs in the region.

This 1998 edition also deals with more specific themes – such as the factors influencing entrepreneurial start-ups, the impact of women entrepreneurs on the Atlantic economy, and regional competitiveness – that show the vitality and evolution of entrepreneurship in Atlantic Canada.

Over the years, *The State of Small Business and Entrepreneurship in Atlantic Canada* has been a very important reference tool on the Atlantic Canadian economy. It has been used by a great many stakeholders in the region, including educators, students, business leaders, entrepreneurs, decision-makers and other people wanting to know more about entrepreneurship and small business in this region.

It has also become a significant promotional and outreach tool, influencing the attitudes of potential entrepreneurs and the general public alike. This is essential, because it is just as important to build an entrepreneurial *culture* in Atlantic Canada as it is to develop entrepreneurs.

I am pleased to present the fifth edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*. I hope it helps you gain insight into our dynamic region.

A handwritten signature in dark ink, appearing to read "Fred J. Mifflin". The signature is fluid and cursive, with a horizontal line drawn underneath the name.

Fred J. Mifflin, P.C., M.P.

# Acknowledgements

The Atlantic Canada Opportunities Agency (ACOA) would like to recognize the people who have contributed to the development and quality of this fifth edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*. The publication was written as a collaborative effort between Gar Pynn of the St. John's-based GAP Associates, Wayne King of the P.J. Gardiner Institute for Small Business Studies at Memorial University of Newfoundland and Gary Gorman of the Faculty of Business Administration, also at Memorial University. Research assistance and data analysis support was provided by Thomas Dunne and James Parmiter, while Lorraine Clarke looked after technical support.

The project was coordinated by Marc-André Chiasson who chaired the ACOA Editorial Committee comprised of Robert Smith, David Carpenter, Geoff Allen, Doug Smith and John Kavanagh. The participation of two ex-officio members of this Committee, David Slade and Douglas Robertson, was appreciated. The Committee recognizes the immense contributions of Marie Hudson and Charlene Sharpe for their excellent secretarial services, Jeannette McLaughlin for the attention to detail in the final proofreading and copy-editing, and Hudson Design Group in developing and bringing the publication to the camera-ready stage for printing.

The Agency also wishes to express its gratitude to those whose research activities and willingness to share their findings have helped make this 1998 edition an interesting and useful document. These include Dr. Helen Mallette of Mount Saint Vincent University, Dr. Norman McGuinness of Acadia University, as well as the team at the Acadia Centre for Small Business and Entrepreneurship led by Chris Pelham. Their combined efforts produced the study on entrepreneurial start-ups which is featured in Chapter 3 of this publication. As for the information in Chapter 4 profiling the economic impact of women business owners, the Agency thanks Colleen Tobin and her organization, Women's World Finance (Cape Breton Association), as well as the authors of the report Jody Manley and Joanne Gallivan who are both associated with the University

College of Cape Breton. As for the information on regional competitiveness contained in Chapter 5, it was gleaned from five studies commissioned by ACOA, and from a roundtable co-hosted by the Atlantic Provinces Chamber of Commerce and ACOA. Of these five studies, four were produced in 1996 and one was done in 1997. The organizations involved were the North American Policy Group based at Dalhousie University, KPMG Management Consulting, Business Development Information Incorporated, Informetrica Limited, Prospectus Inc., and the Atlantic Provinces Chamber of Commerce.

Last, but definitely not least, ACOA recognizes the excellent work (and patience) of the Translation Bureau at Public Works and Government Services Canada in Moncton.

Feedback from previous editions indicates that *The State of Small Business and Entrepreneurship in Atlantic Canada* plays a significant role in providing information and ideas to many people including elected officials, public servants, business support organizations, consultants, students, educators, media, and basically anyone interested in the economic growth of Atlantic Canada.

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# Executive Summary

The 1998 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* analyzes the dynamics of growth in overall employment and the number of businesses by employment size over the 1989-1995 period, and presents summarized versions of recent research studies on entrepreneurial start-ups in Atlantic Canada, the impact of women entrepreneurs on the Atlantic economy, and regional competitiveness. It adds to the knowledge base on small business and entrepreneurship needs and issues established in the four previous editions of this report.

## Growing Small Businesses

Despite the fact that Canada as a whole and the Atlantic region in particular experienced an economic downturn for much of the 1989-1995 period, the total number of firms actually increased. In fact, the region managed an increase of 5% in the number of firms operating, approximately twice the rate experienced nationally.

At the end of 1995, there were over 941,000 firms operating in Canada and approximately 91,000 in the Atlantic region. The vast majority of these were very small firms. At the end of 1995, almost 79% of all firms in the region had fewer than five employees, 90.5% had less than 20 employees, and 94.2 % had less than 100 employees.

From 1989-1995, firms with fewer than five employees were responsible for all of the total increase in the number of firms in the region. This category experienced the highest number of entrants and exits and had the highest increase in number of firms (10.8%) of any size category. Unlike previous years, there was also a solid increase in the number of firms with more than 100 employees. The average annual rate of new business entries over the period was 19.4% while the exit rate averaged 18.6%, compared with 14.9% and 14.5% respectively for Canada as a whole. The average annual net increase in the number of firms in the region (0.8%) was twice that of Canada as a whole. The most turbulent province was Newfoundland and Labrador which experienced entry and exit rates of 24.1% and 23.5%

respectively. Even so, that province's rate of net increase in the number of firms compared favourably with the national rate of 0.4%. In fact, each of the Atlantic provinces, with the exception of New Brunswick, exceeded the national rate of increase. It must be pointed out, however, that this rate of increase has declined steadily over the six-year period and, in 1995, the region actually experienced a decrease in the number of firms.

Growth in the overall number of firms varied by industry. The highest growth, at 8.8%, was in education, while health (6.7%) and business services (6.4%) were also strong performers. Not surprisingly, in view of the problems in the region's fishery, the agriculture, fishing and trapping industry was the worst performer, with a decline of 3.9%. Virtually all of the other industries grew to some extent.

### **Job Creation – The Dynamics**

Small businesses continue to generate a significant percentage of the gross employment creation in Atlantic Canada. Of the total gross employment created over the period 1989-1995, 62.6% occurred in firms with fewer than 100 employees and 26% was in firms with fewer than five employees. Of the gross new employment created, 70.9% occurred in firms with fewer than 100 employees.

In examining the Atlantic region by province, there appears to be some significant differences. Losses in employment in small businesses in Newfoundland and Labrador and Nova Scotia more than offset the small gains in New Brunswick and Prince Edward Island, 300 and 1,700 respectively. Of the total of 57,200 jobs lost in the Atlantic region, 47,200 or 83% were lost in Newfoundland and Labrador and in Nova Scotia. Firms with 100 or more employees represented 61% of the total job losses in these two provinces.

In terms of employment distribution by industry, all major industries in Atlantic Canada, with the exception of construction and community services, experienced a net decrease in employment. The goods-producing sector declined by 24,000 jobs or 34% of the total decrease of 69,500. Manufacturing employment was down in

all Atlantic provinces. The most notable decrease was in Newfoundland and Labrador where 9,300 jobs were lost in the manufacturing industry, representing 45.8% of the total Atlantic Canada decrease in this industry. Overall, the Nova Scotia economy experienced the most significant declines in the region, losing 32,400 jobs or 46.6% of total job losses in Atlantic Canada.

The situation in Canada was similar with the goods-producing sector, losing 444,700 jobs. The total job loss in Canada was 363,100 with only community services and personal and business services showing job gains.

In conclusion, it can be said that despite the volatility within and among provinces, the small business sector has remained strong. The small firm share of total employment distribution in 1995 was 40.7% in Canada and 38.5% in Atlantic Canada. The comparative percentages for 1989 were 39.3% and 37.8% respectively. With the exception of Nova Scotia, all other Atlantic Canadian provinces experienced similar employment distribution gains. The goods-producing sector showed significant decreases in employment in Canada and in Atlantic Canada. The manufacturing industry accounted for some 85% of this decrease.

### **Entrepreneurial Start-Ups in Atlantic Canada**

This chapter summarizes the results of a study conducted by Dr. Helen Mallette of Mount St. Vincent University and Dr. Norman McGuinness of Acadia University. The research, which was funded by the Atlantic Canada Opportunities Agency and the Acadia Centre for Small Business and Entrepreneurship, was designed to investigate the entrepreneurial start-up process with a view to assisting those involved in providing counselling services to small firms. The questions addressed included:

- Which aspects of the start-up process are likely to have the most impact on success?
- How can counsellors intervene more effectively?
- Do high achievers go through start-up differently than low achievers?
- How can individuals adapt their counselling to the varying needs of different entrepreneurs?

Some 7,083 questionnaires were sent out during late 1996 and early 1997. Of these, 912 usable responses were received for a response rate of 12.9%.

The authors began with the development of a basic entrepreneurial start-up model. This basic model consisted of three elements, background factors, process activities and outcomes. The remainder of the report addresses each of these in some depth.

Outcomes were examined through the application of the Theory of Planned Behaviour, which is based on the premise that the best predictor of behaviour is the intention to perform. *Intention*, in turn, is the product of three variables. These include the degree to which a person believes that the behaviour will lead to desired outcomes – *Attitude*, the degree to which the person believes that the behaviour will meet the approval of prominent people in his/her life – *Subjective Norms*, and the degree to which the person perceives he/she exercises control over behaviour – *Perceived Control*. Because the entrepreneurs surveyed found it difficult to remember what their intentions were prior to start-up, the authors found it necessary to modify this model. Thus, *Success* was substituted for *Intentions*, *Goals* for *Attitude*, *Support* for *Subjective Norms*, and *Efficacy* for *Perceived Control*. The survey results confirmed that both *Efficacy* and *Support* positively impacted on *Success*. *Goals* had little direct impact on *Success* but did strengthen *Efficacy*, thus providing an indirect impact on *Success*.

The report next moved to a discussion of Process Activities. The process variables identified were *Planning*, *Difficulties* and *Financial Risk*. The survey indicated that *Difficulties* had a positive impact on both *Planning* and *Financial Risk*, in that the greater the difficulties perceived by the entrepreneur, the more planning was undertaken and the greater the perceived financial risk. *Planning* did not, however, reduce perceived *Financial Risk*. Instead, these two variables seemed to move in tandem. *Financial Risk* also decreased *Efficacy*. *Planning*, on the other hand, strengthened *Efficacy*.

The final section of the preliminary model to be dealt with was Background Factors. There were three of these identified:

Experience, Individual Circumstances, and Need for Achievement. The first two of these factors were further categorized as: prior dissatisfaction with one's employment or financial situation, the degree to which the entrepreneur expected the business to remain small, the presence of a clear business idea, related business experience, and experience in management. The survey indicated that entrepreneurs who experienced significant dissatisfaction with their previous situation, or who expected the business to remain small, had little interest in goal setting. Entrepreneurs with clear business ideas tended to do more planning and to have a stronger sense of personal efficacy. Both related business and management experience had a small, positive effect on planning, but only management experience had an impact on efficacy.

The authors consider Need for Achievement (nAch) as significantly different from previous experience and individual circumstances. A person with high nAch generally likes situations where he/she takes personal responsibility for problem-solving, tends to set moderate achievement goals and take calculated risks, and wants concrete feedback on how well he/she is doing. In the survey, nAch was measured using the Work and Family Orientation (WOFO) scale which assesses individuals in terms of four dimensions. These are: a desire to master something before moving on to something else, a positive work attitude, competitiveness, and lack of concern with negative reactions of others. The survey results indicated that people with high nAch want to have challenging goals and will seek them out, and are challenged by difficulties. They also hate to lose and will plan carefully in order to avoid making mistakes.

The authors conclude by pointing out that, although the relationship of nAch to entrepreneurship has received a good deal of attention in the research literature, the use of the WOFO scale is new and may become a useful tool for business counsellors. The research also indicated that the major impact of nAch is on specific parts of the entrepreneurial start-up process, rather than on the process as a whole. Finally, the development of a large integrated model, as the authors outline in the report, allows for a better understanding of the real complexity of the business start-up process and the many interactions involved between variables.

## **Women-Owned Businesses in Atlantic Canada: A Profile**

A study commissioned by Women's World Finance/Cape Breton Association (WWF/CBA) forms the basis for chapter 4. The study, supported with funding from the Atlantic Canada Opportunities Agency, the University College of Cape Breton, Nova Scotia Economic Development and Tourism, Department of Canadian Heritage and Air Nova, was designed to identify the economic contribution made by women-owned businesses in the region. In addition, several related issues are addressed. These include: factors affecting start-up, characteristics of women-owned businesses, financing, education and training, work and family, and growth and expansion. The highlights are as follows:

- The major reasons for starting up a new enterprise were less economically motivated and more personal in nature. Opportunity to be one's own boss ranked highest at 42.5%.
- The majority of women-owned businesses operate in the service sector and the retail trade sector.
- There appears to be an upward trend in the percentage of self-employed women operating in the manufacturing sector.
- The major source of start-up capital for women-owned businesses is personal savings.
- Forty-six percent of women entrepreneurs have university education and the majority pursue additional training in business management skills.
- A significant percentage (38%) of women entrepreneurs indicate that they use high technology in their business operations.
- More than 50% of the businesses in the study were home-based. As the businesses grow in terms of sales and number of employees, there is a tendency to move into leased or owned premises.
- Women entrepreneurs use a variety of strategies to balance work and family responsibilities.
- Women-owned businesses appear to be expanding their markets beyond their local area with 52% operating provincially, 36% regionally, 36.8% nationally and a surprising 31.6% operating internationally.

The study concludes that women-owned businesses in Atlantic Canada make a significant contribution to the economy, that women entrepreneurs have a high degree of determination and tenacity, and that they are optimistic despite the obstacles they have to encounter in the process of creating and developing a business.

### **Regional Competitiveness**

Chapter 5 summarizes the results of recently completed research on Atlantic Canada's competitiveness, discusses the challenges facing the region in this area and outlines potential strategies to improve its competitive position. Five studies commissioned by ACOA and a roundtable co-hosted by the Atlantic Provinces Chamber of Commerce and ACOA provide the basis for much of the discussion. The first study examines site location-sensitive cost factors and quality of life indicators. The second study compares the socio-economic status of Atlantic Canada with G-7 nations. The third study compares the economic performance and development potential of Atlantic Canada with that of the 50 U.S. states. The fourth study compares Atlantic Canada's competitiveness with the world's leading economies. The final study, completed in 1997, is an update and expansion of the first study, conducted a year earlier, which compared the costs of doing business in Atlantic Canada with those in the United States. The 1997 report provides an update on the comparison with the United States and also includes a comparison of the costs of doing business in Atlantic Canada with five European countries.

In total, the five studies present a comprehensive picture of the competitiveness of the economy of Atlantic Canada. The report on the roundtable provides a summary of the strengths and weaknesses of the Atlantic region and suggestions on how to improve Atlantic Canada's competitive position in the global economy.

Results of the research on the competitiveness of the Atlantic region indicate that Atlantic Canada has strengths that should provide long-term sustainable competitive advantages. In particular, the region offers advantages in the areas of initial investment and operating costs that reflect lower industrial land and construction costs and

lower labour costs, which hold over a wide range of exchange rates. In addition, human development indicators, including measures of longevity, knowledge and standard of living, place the region second only to Canada. While Atlantic Canada's strengths in this area are derived, in part, from its position within Canada, the region also offers its own distinct advantages, such as abundant renewable water resources and excellent educational infrastructure. Furthermore, in terms of economic performance and development potential, the Atlantic region possesses advantages in areas such as health, social systems and the environment and demonstrates a strong entrepreneurial spirit.

Notwithstanding the many positive aspects of Atlantic Canada as an investment location and its demonstrated performance in the areas noted above, the region faces a number of challenges to improving its competitive position in the global marketplace. Specifically, a high rate of unemployment, decelerating population growth and the outmigration of highly educated young people are having a negative impact on the region's human resource potential. These problems are compounded in the technology area by comparatively low rates of innovation and technology adoption and a low level of private sector investment in research and development and related human resources. In addition, Atlantic Canada needs to diversify its export products, services and markets, to increase access to equity capital and to improve the quality of the workforce in the region, including those in management positions. Addressing the challenges related to the region's natural resources is considered essential to increasing the competitiveness of Atlantic Canada.

Suggested strategies to improve the region's competitiveness must be based on a well articulated and shared vision emanating from both public and private sector stakeholders. Partnering, collaboration, networking and strategic alliances are consistent themes underlying the implementation of specific strategies which should include the following: educational and training programs targeted to the needs of industry, enhanced efforts to increase technology transfer from the universities to the private sector, a more effective support structure for SMEs with high growth and export potential, and implementation of best management practices. Finally, the vision and strategies must reflect an overriding positive attitude about the prospects for Atlantic Canada.

# Background and Introduction

As background to this report, it is important to have an understanding of the Atlantic region's economy, in particular its demographics, economic circumstances and future outlook.

## Economic Overview of Atlantic Canada

The performance of Atlantic Canada's economy has been influenced by a number of key demographic trends, such as slow population growth, few large urban centers and a significant number of widely dispersed small communities. In addition, dependence on natural resources for employment has led to an economy that is much more sensitive to seasonal swings in employment than is the rest of the country.

The four provinces in Atlantic Canada cover 195,000 square miles of land or 5% of Canada's total land area. Approximately 2.4 million people live in the region, representing slightly less than 8% of the country's total population. Population growth in Atlantic Canada has been quite weak, averaging just 0.2% during the last five years. For Canada, population gains averaged 1.2% over the same period. Weaker population growth in the region has been a significant contributor to slower economic and labour force activity. Limited population growth tends to restrict domestic demand, impacting negatively on the service-producing industries.

People are more likely to live in rural areas or small towns in Atlantic Canada (45% of the population) than in Canada as a whole (25% live in rural areas). Nova Scotia has Atlantic Canada's largest urban agglomeration, the Halifax metro area, whose population of about 300,000 is one-third of the province's total. Other large centres (over 100,000 people each) are St. John's, Newfoundland, and Saint John

and Moncton, New Brunswick. Since only a portion of the region's population is located in large metropolitan areas, concentrations of population required to sustain a large and diversified set of economic activities are lacking.

Atlantic Canada developed a dependency on resource industries early in its history and, more than other parts of Canada, continues to rely on fishing, mining, forestry and agriculture. The region's dependency on resources has led to the establishment of many small communities in isolated areas. In Atlantic Canada, 856 communities, or 96% of a total 892, have a population of less than 10,000. Almost all of these communities are reliant on the resource industries for employment. In many of these communities, the resource industries, both primary and processing, account for almost all non-government employment. Employment in these communities has become much more vulnerable, due not only to resource depletion but also mechanization.

Natural resources in Atlantic Canada provide the foundation for the region's economy. These industries and their associated processing activities account for almost half of the output in the goods-producing industries in Atlantic Canada and also generate significant economic spin-offs in the rest of the economy through the intermediate purchase of goods and services. The region's exports are also dominated by natural resource products. Major commodity exports include wood pulp, newsprint, coated paper, lumber, fish products, potatoes, gasoline and fuel oil, iron ore, lead, zinc, potash and tires. Exports to the United States represent over two-thirds of total foreign exports. Other major markets include Western Europe and Japan. The resource industries are expected to continue to stimulate economic activity in the region. New mineral discoveries, offshore energy development, aquaculture and ocean industries all represent continued utilization of the region's natural resources.

The Atlantic economy has begun to transform itself, with emerging growth areas being found, not only in knowledge-based industries, but in the traditional industries as well. The tourism industry in the region continues to grow with approximately 15,000 businesses accounting for more than 96,000 direct and indirect jobs in Atlantic Canada. In Newfoundland and Labrador, a number of high-growth industries, such as information technologies, aquaculture and

adventure tourism is becoming increasingly important in the diversification of the economy. In Prince Edward Island, potential growth opportunities have been identified in food processing, research and tourism. Health care services, computer-software manufacturers, marine-related instrumentation and biotechnology are a few of the key growth industries in Nova Scotia that are being developed from the knowledge base in the province. New Brunswick continues to diversify its economy, with the establishment of call centres by several major national and international companies. The economic contribution of small- and medium-sized firms in these areas is the focus of more detailed discussion and analysis presented in the first two chapters of this report.

Despite the recent growth among the various traditional sectors and diversification of the economy into new areas, there are major challenges that need to be addressed to reduce regional disparity. Low productivity levels remain a problem with improvements being hindered by the slower rate of advanced technology adoption, low levels of research and development and a less educated work force.

### **Recent Economic Performance of the Region**

The economy of Atlantic Canada showed a noticeable improvement in 1997 over 1996; however, growth in the region still lagged behind the country in most areas, including real Gross Domestic Product (GDP), employment, personal consumption, investment and exports.

Real GDP in the region increased by 1.5%, up from a gain of 0.8% in 1996. Economic growth in the region was led by increased output in the manufacturing, transportation and communication industries. Despite the stronger rate of growth, it was less than the 3.5% increase in real GDP registered for the Canadian economy. This performance, relative to the national economy, is a continuation of the slow growth trend that has occurred since the 1990 recession. Over the 1991-1997 period, real GDP in Atlantic Canada increased by an average of 0.9%, compared to 1.8% for Canada. On an industry basis, economic growth was hindered somewhat by the winding down of the Hibernia construction project and reduced production in the forestry and mining industries. A reduction in public sector activity moderated growth in the service-producing industries. One of the bright spots was the tourism industry which earned \$2.5 billion in receipts during 1997.

Labour market conditions in Atlantic Canada improved during 1997. Average monthly employment in the region increased by 1.3%, while the comparable increase for Canada was 1.9%. During 1997, the unemployment rate in the region averaged 14%, up slightly from 13.9% registered in 1996. This rate continues to average four to five percentage points higher than the national rate. Labour market participation rates remain seven percentage points below the national level (58% versus 65% nationally).

Consumer expenditures, which account for 72% of activity in the Atlantic economy, are estimated to have increased by 4.5% during 1997, reflecting an increase in spending on both goods and services. Nationally, consumer expenditures increased by 5.8%. The stronger national increase is a result of a larger gain in personal income, compared with the Atlantic region. Retail sales in Atlantic Canada increased by 3.9% during 1997, well below the national increase of 7.2%.

The overall weakness in consumer spending is related to continued concern over job security and high debt-to-income levels. In recent years, growth in personal disposable income had been much weaker in Atlantic Canada, compared with the national performance. In 1997, however, personal disposable income within the region is estimated to have increased by 2.2%; while, for all of Canada, there was an estimated 2.4% increase. This increase follows a decline of 0.4% in 1996. The Atlantic performance reflects an improvement in labour income growth.

Private and public investment increased by 9.1% in the region in 1997, while investment for all of Canada increased by 11.6%. Investment in the region was supported by a 12.1% increase in private sector investment, while public sector investment fell by 2.3%. Regional investment in machinery and equipment increased by 22.6%, while investment in construction increased by 3%. The gain in private sector investment was a result of increased capital expenditures in the mining and manufacturing industries. Capital expenditures in manufacturing increased by 14%, mainly due to pulp and paper investment.

The value of foreign exports in Atlantic Canada increased by 3.2% during 1997, compared with a 7.6% increase for Canada. The gain in exports in the region was led by an increase in the export of mineral products.

At the provincial level, the Newfoundland and Labrador economy is estimated to have registered a gain of 0.4% for 1997 following a decline in economic activity in 1996. This improvement in economic performance is a result of gains in consumer spending and exports. On an industry basis, increased activity in the mining, manufacturing and tourism industries supported the gain in output.

Following three fairly strong years of economic growth, the economy of Prince Edward Island is estimated to have increased by 0.2% in 1997. During the year, the economy was supported by strong growth in consumer spending and exports. In 1997, the economy had to adjust to the completion of the Confederation Bridge, which impacted negatively on the construction industry. However, with the opening of the Bridge, the tourism industry experienced a good year with a 30% increase in visitors and a 29% increase in visitor spending over 1996. As well, new food processing capacity contributed to higher levels of output in the manufacturing industry.

After several years of modest gains, the economy of Nova Scotia registered a stronger performance in 1997. The economy is estimated to have expanded by 2.4% in 1997, up from the 0.8% rate of growth registered in 1996. Increases in investment and consumer spending supported economic growth in 1997. On an industry basis, expansion in 1997 was a result of increased output in the construction, transportation and communication industries. In 1997, real GDP in New Brunswick is estimated to have increased by 1.2%, down slightly from the 1.5% gain in 1996. Slow growth in consumer spending and declines in both exports and investment contributed to the moderate expansion in the economy. Output in the goods-producing industries declined slightly, due to weakness in the mining, forestry and construction industries. An increase in activity in the service-producing industries was supported by strong gains in the transportation and communication industries.

### **Economic Outlook for 1998 and 1999**

According to the Conference Board of Canada, growth in the economy of Atlantic Canada is expected to accelerate in 1998, with real GDP forecast to increase by 3%, up from the gain of 1.5% in 1997. This rate of growth would be the strongest registered in the region since 1987 and compares favourably with the forecast national growth rate of 3.1%.

During 1998, economic growth in Atlantic Canada will be supported by offshore oil production, highway construction, development of Sable Island gas and a rebound in the demand for forest products. Employment in the region is forecast to increase by 1.8%, while the unemployment rate is expected to fall to 13.6%.

The Atlantic economy is expected to strengthen further in 1999, with real GDP forecast to increase by 3.6%, higher than the national rate of 3.2%. Strong growth in the Newfoundland economy, supported by production from Hibernia as well as development of the Voisey's Bay mineral complex, is responsible for the region outperforming the national economy. In terms of job creation, employment growth of 2.1% is expected in the region. The unemployment rate for the region is forecast to decline further to 13.1%.

### **The 1998 Report**

The following discussion serves as a backdrop for the 1998 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*. Previous editions have documented the contribution of small firms and entrepreneurship to economic development and growth in the region. These editions have profiled research in Atlantic Canada related to such themes as youth entrepreneurship, small business financing, home-based business and entrepreneurship education. The current edition extends the analyses of growing small businesses (Chapter 1) and employment dynamics (Chapter 2), and summarizes recent contributions to the empirical knowledge base in the areas of entrepreneurial start-ups (Chapter 3), the impact of women entrepreneurs on the Atlantic economy (Chapter 4) and regional competitiveness (Chapter 5).

Chapters 1 and 2 are based largely on Statistics Canada data and provide the specifics of firm dynamics and employment dynamics for the period from 1990-1995, with comparisons to previous periods where appropriate.

The theme chapters are based on current studies and are intended to get behind the broad-based statistical data in an effort to understand components of the economy that underlie the entrepreneurial activity that so clearly contributes to the economic strength of the Atlantic region. The better these components are understood, the better governments and other public sector and quasi-government partners can design and implement programs that have a positive impact on employment, income and the general economic and social well-being of the region.



## Chapter One

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# Growing Small Businesses

Previous editions of *The State of Small Business and Entrepreneurship in Atlantic Canada* have presented statistical data which demonstrate the important role that entrepreneurship plays in the region's economy. Economic statistics<sup>1</sup> for the period 1990 to 1995 confirm the importance of that role within the region, as well as in the country as a whole. In comparison with the 1996 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*, the data indicate that the rate at which new firms are entering the economy has decreased slightly in recent years. At the same time, the rate at which firms are exiting the economy has also increased slightly. The resulting retention rate, while slightly lower than that indicated in the previous report, is still significantly higher than that of Canada as a whole. Unlike the national experience, which saw a shift away from traditional goods-producing sectors toward the service industries, the number of goods-producing firms in the region increased over the five-year period. The service sector in the region continued to progress as well.

In this chapter, we present a six-year analysis of data derived from *Statistics Canada*, focussing on entries and exits and on trends within

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<sup>1</sup> Data in this chapter, unless otherwise stated, were sourced from Employment Dynamics, Business Size and Life Status, Small Business and Special Surveys Division, Statistics Canada and from a special run of Employment Dynamics. There was a structural change in the Statistics Canada data base in 1989 and data prior to 1989 are no longer comparable with data after 1989. The structural change consists of a change from the 1970 SIC system to the 1980 SIC system as well as a change from the Business Register Division system of business identification to the current CFDB system (Central Frame Data Base). Readers are further cautioned that refinements of the 1990-1993 data have resulted in differences in the data presented for that period in this edition and the 1996 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*.

specific industries. The data clearly demonstrate that the region continued to outperform the Canadian economy over that period. This is indeed encouraging in a region which relies so heavily on new firms to stimulate employment and economic growth.

### Distribution of Firms by Sector

As can be seen in Tables 1.1 and 1.3, the number of firms in Atlantic Canada increased by 4,305 or 5% between 1989 and 1995. This gain was largely due to the 34.4% increase in the funded<sup>2</sup> sector.

**Table 1.1**

### Distribution of Firms by Sector Atlantic Canada 1989-1995

Sector	# of firms 1989	Share of total in %	# of firms 1995	Share of total in %	Net change in # of firms	% change in # of firms
Goods-producing	23,789	27.42	25,266	27.74	1,477	6.2
Trade	18,177	20.95	18,735	20.57	558	3.1
Market Services	36,547	42.12	37,633	41.32	1,086	3.0
Funded Sector	6,276	7.23	8,432	9.26	2,156	34.4
Unclassified	1,976	2.28	1,004	1.10	-972	-49.2
Total	86,765	100.00	91,070	100.00	4,305	5.0

Source: *Employment Dynamics*

Unlike the remainder of Canada, the region's goods-producing sector increased by 1,477 firms. This is rather surprising in view of the well-publicized problems within the Atlantic ground fishery. In fact, a comparison of Tables 1.1 and 1.2 indicates that when the relative size of the region is considered, the Atlantic region outperformed the national economy by a substantial margin.

<sup>2</sup> The funded sector includes Community Services (education, health and welfare) and Public Administration. The market services sector includes Transportation, Communications and Utilities, Finance, Insurance and Real Estate, and Personal and Business Services.

**Table 1.2**

**Distribution of Firms by Sector**  
**Canada**  
**1989-1995**

Sector	# of firms 1989	Share of total in %	# of firms 1995	Share of total in %	Net change in # of firms	% change in # of firms
Goods-producing	247,456	26.92	236,342	25.10	-11,114	-4.5
Trade	195,520	21.27	197,981	21.02	2,461	1.3
Market Services	387,416	42.14	406,039	43.12	18,623	4.8
Funded Sector	70,350	7.65	84,262	8.95	13,912	19.8
Unclassified	18,515	2.01	17,113	1.82	-1,402	-7.6
Total	919,257	100.00	941,737	100.00	22,480	2.4

Source: *Employment Dynamics*

Even though Canada experienced a recession during the early 1990s, the number of firms operating in the country increased from 919,257 to 941,737. However, as Table 1.2 indicates, there were a number of variations within sectors. The market services sector experienced the largest increase in the number of firms, growing from 387,416 to 406,039, or by 18,623 firms. The funded sector ran a relatively close second with an increase of 13,912. These gains were partially offset by a large decrease in the number of firms in the goods-producing sector, which lost over 11,000 firms over the six-year period.

### **Entries and Exits**

Generally speaking, new ventures have extremely high mortality rates during their first several years of existence. A dynamic economy needs a large number of new business start-ups each year, many of which will “beat the odds.” Some of these, in turn, will become solid contributors to employment growth and the creation of economic value. These new firms must also replace job losses in firms that decrease in size or which exit the economy during a period. A good indicator of a region’s economic health, therefore, is the rate at which new businesses are started.

**Table 1.3**

**Net Change in Number of Firms  
by Province and by Sector  
1989-1995**

Sector	NF	NS	NB	PEI	Total
Goods-producing	510	114	752	101	1477
Trade	122	236	74	126	558
Market Services	-380	886	263	317	1,086
Funded Sector	880	535	524	217	2,156
Unclassified	-380	-253	-317	-22	-972
All Industries	752	1,518	1,296	739	4,305
SIC Industries	1,132	1,771	1,613	761	5,277
% of 1989					
SIC Firms	5.46	5.78	6.09	11.02	6.22

Source: *Employment Dynamics*

In the context of our discussion, “entries” are defined as businesses that enter a region’s economy during a given year. “Exits” are firms that have left the economy in a particular period. Entry rates and exit rates are calculated by dividing the number of new firms or exiting firms by the number of firms that existed at the beginning of the period in question. Exit statistics do not necessarily measure business failure; in fact, businesses leave the economy for a number of reasons, including mergers, acquisitions and voluntary closures. In some cases, companies undergoing a change in legal status, a name change or a change in ownership might appear as an exit in Statistics Canada reports. It is not uncommon for firms to simply become inactive for periods of time and to reappear later as active businesses.

Table 1.4 provides a summary of business entry and exit statistics for each of the individual Atlantic provinces, for the Atlantic region as a whole, and for Canada. Atlantic Canada’s entry rate of 19.4% compared very favourably with the rate of 14.9% experienced nationally. In fact, each of the individual Atlantic provinces substantially exceeded the national rate.

**Table 1.4**

**Average Entry and Exit Rates for Businesses  
Canada, Atlantic Canada and Provinces  
1990-1995  
(%)**

Province	Entry rate	Exit rate	Net gain in # of businesses
NF	24.1	23.5	0.6
PEI	19.8	18.1	1.7
NS	18.0	17.3	0.7
NB	17.1	16.8	0.3
ATL CAN	19.4	18.6	0.8
CAN	14.9	14.5	0.4

Source: *Special run of Employment Dynamics*

Table 1.5, which presents annual entry rates for the years 1990-1995 by province, region and country, indicates that despite the robust entry rate experienced in the region over this period, the rate has decreased from 21.8% in 1990 and has levelled at 18.5% for the 1993-1995 period. This may provide some cause for concern, particularly in view of the fact that the national rate increased 0.6% over the latter three-year period.

**Table 1.5**

**Trends in Business Entry Rates  
Canada, Atlantic Canada and Provinces  
1990-1995  
(%)**

Region	1990	1991	1992	1993	1994	1995	Average
NF	29.4	25.8	24.5	23.4	20.5	21.0	24.1
PEI	21.2	21.7	17.1	16.7	21.4	20.8	19.8
NS	18.9	18.7	17.7	17.4	17.6	17.4	18.0
NB	19.4	17.1	16.2	15.9	17.0	17.1	17.1
ATL CAN	21.8	20.3	18.9	18.5	18.5	18.5	19.4
CAN	16.7	14.7	14.3	14.2	14.6	14.8	14.9

Source: *Special run of Employment Dynamics*

Table 1.5 also indicates that a decline in entry rate was experienced in each of the Atlantic provinces. As in previous years, Newfoundland and Labrador experienced the highest entry rate overall, but its decline

was also the most precipitous – from 29.4% to 21%. In view of the impact of the bridge construction linking Prince Edward Island with New Brunswick, it is not surprising that the former province experienced only a slight overall decrease – from 21.2% to 20.8%, a commendable performance in comparison with the regional and national performances.

Table 1.4 indicates that the Atlantic region experienced an exit rate much higher, at 18.6%, than the national average of 14.5%. However, Atlantic Canada did experience an overall increase of 0.8% in the number of firms operating in the region, somewhat higher than the national rate of 0.4%. Newfoundland and Labrador experienced the highest exit rate at 23.5%, but still managed a net increase in firms of 0.6%, well above the national average. The region's highest performer was Prince Edward Island, which produced a net increase of 1.7%, again likely the result of the fixed link. The remaining Atlantic provinces also outperformed the national average. Although these exit rates might appear somewhat high, it must be pointed out that small firms traditionally experience high exit rates and that this was magnified by the recession which was prevalent in the region during the early 1990s. Given that fact, the region actually performed quite well.

Business exit rates varied widely within the region. Table 1.6 provides an overview of exit activity by province, together with a comparison of regional and national rates. The highest provincial rate, at 23.5%, belonged to Newfoundland and Labrador. This province had a significant increase, from 23.2% to 25.3%, over the period. The highest increase during this period occurred in Prince Edward Island, which experienced an increase from 16% to 23.2%. Nova Scotia also experienced an increase.

**Table 1.6**

**Trends in Business Exit Rates**  
**Canada, Atlantic Canada and Provinces**  
**1990-1995**  
 (%)

Region	1990	1991	1992	1993	1994	1995	Average
NF	23.2	23.0	22.1	23.0	24.2	25.3	23.5
PEI	16.0	16.3	19.2	16.6	17.1	23.2	18.1
NS	16.6	17.4	16.9	17.2	16.8	19.0	17.3
NB	17.5	16.7	15.7	18.0	15.5	17.4	16.8
ATL CAN	18.5	18.5	18.0	17.7	18.3	20.4	18.6
CAN	15.1	15.5	14.0	13.9	13.7	14.6	14.5

Source: *Special run of Employment Dynamics*

As a result of this activity, the impact on the economy of relatively high entry rates has been largely offset by high exit rates. It would appear that Atlantic Canadians continue to start businesses at rates higher than the national average. However, mechanisms and support systems must be developed to help reduce the rate at which firms exit the economy. Table 1.7 reinforces this view.

**Table 1.7**

**The Dynamics of a High Turnover**  
**Atlantic Canada**  
**1986-1995**

Year	Total # of firms the year before	Entries this year	Exits identified this year	Net gain	%
1986	76,940	14,867	10,982	3,885	5.1
1987	80,825	15,796	12,559	3,237	4.0
1988	84,062	16,523	13,974	2,549	3.0
1989	86,611	17,060	13,433	3,627	4.2
1990	86,765	18,935	16,022	2,913	3.4
1991	89,678	18,176	16,598	1,578	1.8
1992	91,256	17,246	16,456	790	0.9
1993	92,046	16,978	16,240	738	0.8
1994	92,784	17,120	17,014	106	0.1
1995	92,890	17,155	18,975	-1,820	-2.0

Source: *Special run of Employment Dynamics*

The percentage of net new firms entering the region's economy has steadily decreased over the 1990-1994 period and, in fact, for the first time in ten years, the region experienced a net decrease in the number of firms in 1995. This situation is extremely serious given the region's dependence on growth in new businesses as an economic stimulant. In order to identify areas of strength and weakness within the region, it is useful to examine entries, exits and net retentions within various industries. This information is presented in Table 1.8.

**Table 1.8**

**Entries and Exits by Industry**  
**Atlantic Canada**  
**1990-1995**

Industry	Total entries #	Total exits #	Entry rate %	Exit rate %	Net gain %
Agricult. Fish. Trap.	11,197	13,956	15.75	19.63	-3.9
Logging & Forestry	2,089	1,794	22.04	18.93	3.1
Mining	304	293	18.98	18.29	0.7
Manufacturing	4,550	4,266	17.39	16.30	1.1
Construction	11,545	10,816	19.99	18.73	1.3
Transportation	4,058	3,707	19.46	17.77	1.7
Communication	705	605	23.23	19.93	3.3
Wholesale	4,468	4,015	15.68	14.09	1.6
Retail	13,319	13,123	16.69	16.45	0.2
Finance & Insurance	3,364	3,188	15.31	14.51	0.8
Business Services	6,041	4,510	25.12	18.76	6.4
Government Services	1,519	1,549	28.94	29.51	-0.6
Education	1,201	863	31.33	22.51	8.8
Health	6,158	4,261	21.68	15.01	6.7
Accommodation	7,044	6,188	23.45	20.10	2.9
Other Services	28,048	28,171	25.82	25.93	-0.1
<b>Total</b>	<b>105,610</b>	<b>101,305</b>	<b>20.29</b>	<b>19.46</b>	<b>0.8</b>

Source: *Employment Dynamics*

Not surprisingly, one of the region's traditionally strong industries, Agricultural, Fishing and Trapping, has shown a decrease over the six years included in the analysis. Many of the other industries, however, performed extremely well over this period. Among the best performers is education which, with a net increase of 8.8%, reflects the growing number of privately operated educational institutions in

the region. Paralleling the national performance, services are also extremely strong. Logging and forestry experienced an entry rate of 22% and an overall increase in the number of firms operating in the region of 3.1%. The communications industry was strong, with an increase of 3.3%. Particularly heartening, from an employment point of view, was the manufacturing industry, which increased by 1.1%.

### **Business Dynamics**

The previous section of this report examined the pattern of business entries and exits, revealing that large numbers of new firms are needed to offset those exiting the economy, and to create the economic wealth the region requires. This section will investigate the growth patterns of firms in existence at the end of 1989, as well as those established after that time. This analysis, based on the data presented in Table 1.9, looks at the growth in number of firms by employment size category. A small firm is defined as one with fewer than 100 employees, a medium-sized firm is one with 100-499 employees and a large firm is one with 500 employees or more.

Several patterns can be identified from a review of Table 1.9. First, most firms remained stable in size or, at best, experienced increases or decreases in employment which were not large enough to move them to another category. Second, in comparison with the number of new firms, relatively high numbers of firms of all sizes exited the economy. In order to understand the implications of these patterns, an examination of the movement of firms between employment categories is necessary. Before doing that, however, some clarification of the terminology is necessary. “Entrants” are defined as firms which entered the economy during the six-year period under review. “Exits” are firms which left the economy during that period. “Outflows” are firms that existed in 1989 and which moved to another size category during that same six-year period.

**Table 1.9**

**The Dynamics of Firms in Atlantic Canada  
1990-1995  
(000s)**

Status	<5 emp.	5<20 emp.	20<50 emp.	50<100 emp.	100<500 emp.	500+ emp.	Total firms
Firms in existence at the end of 1989	64.7	12.8	3.6	1.5	2.3	1.9	86.8

**Firms Coming into the Size Category**

New entrants	90.3	6.9	3.1	1.7	2.4	1.2	105.6
Inflows	3.6	2.2	1.0	0.5	0.4	0.1	7.8
<b>Total</b>	<b>93.9</b>	<b>9.1</b>	<b>4.1</b>	<b>2.2</b>	<b>2.8</b>	<b>1.3</b>	<b>113.4</b>

**Firms Leaving the Size Category**

Exits of 1989 firms	37.6	3.9	1.2	0.6	0.9	0.5	44.7
Outflows	1.7	4.1	1.1	0.5	0.3	0.1	7.8
Exits of post- 1989 firms	47.6	4.0	2.0	1.0	1.4	0.6	56.6
<b>Total</b>	<b>86.9</b>	<b>12.0</b>	<b>4.3</b>	<b>2.1</b>	<b>2.6</b>	<b>1.2</b>	<b>109.1</b>

<b>Net Change</b>	<b>7.0</b>	<b>-2.9</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>4.3</b>
Firms in existence at the end of 1995	71.7	9.9	3.4	1.6	2.5	2.0	91.1
% of all firms	78.7	10.8	3.7	1.9	2.7	2.2	100.0
% change	10.8	-22.6	-5.5	6.7	8.7	5.3	5.0

Source: *Special run of Employment Dynamics*

The most volatile size category was the smallest firms. This category experienced the highest numbers of entrants and exits by far. It was responsible for the highest increase in the number of total firms and, in fact, accounted for almost all of the increase in firms in the region over the six-year period, with medium-sized and large firms achieving modest increases. A somewhat surprising fact, however, is that very few small firms grew to a point where they entered a larger size category. In fact, most small firms remained about the same size. There may be a number of reasons for this. Small businesses tend to have somewhat restricted access to the financial and human

resources needed for expansion. Many small firms feel constrained by the size of local markets and find it difficult to see beyond local boundaries. During much of the period under review, the region experienced tough economic times. Finally, many small business owners choose to remain small and have no growth aspirations.

In conclusion, Atlantic Canada continues to lead the nation in new business start-ups and in net retention rate of new businesses. At the end of 1995, close to 80% of all firms in the region had five employees or fewer and nearly 95% had fewer than 100. This situation clearly reinforces the importance of small business to job creation within the region. The impact this has had on employment will be discussed in the next chapter.



# Chapter Two

## Job Creation – The Dynamics

While the 1996 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* reflected the impact of the recession in the early 1990s, there were several positive trends. For example, the unemployment rate in Canada and Atlantic Canada was on the decline from 1993 through 1995. All provinces in the Atlantic region benefited from the trend in the overall decline in unemployment rates.

It should be noted, however, that by 1995 the unemployment rate in Atlantic Canada was 1.2 percentage points higher than in 1989. In Canada, the rate in 1995 was 2.0 percentage points higher than the 1989 level (Table 2.1).

Table 2.1

### Unemployment Rates Canada and Atlantic Canada 1989-1995

Region	Year						
	1989	1990	1991	1992	1993	1994	1995
CAN	7.5	8.1	10.4	11.3	11.2	10.4	9.5
NF	15.7	17.0	18.3	20.2	20.1	20.4	18.3
PEI	14.0	14.9	17.0	17.9	18.1	17.2	14.7
NS	9.9	10.6	12.0	13.1	14.6	13.3	12.1
NB	12.4	12.1	12.8	12.8	12.5	12.5	11.5
ATL CAN	12.2	12.8	14.0	14.9	15.4	14.9	13.4

Source: Statistics Canada, Cat. No. 71-201

This chapter discusses the overall dynamics of employment in Canada, Atlantic Canada and individual Atlantic provinces. In particular, comparisons will be made between employment distribution among firms by size and by various sectors of the economy based on the Standard Industrial Classification (SIC) codes. It should be noted that comparisons will be for the period 1989-1995.

### **Employment Creation**

Table 2.2 indicates the gross employment created in Atlantic Canada by each firm size category as a percentage of total employment. The second column shows the percentage, by firm size, of total employment created by new firms entering the economy over the 1989-1995 period. Of the gross employment created by new firms, 70.9% occurred in those with fewer than 100 employees. What is also significant is that firms with less than five employees created 36% of the new employment. This indicates that the Atlantic region has a vibrant entrepreneurial sector that continues to create new employment as new firms enter the economy, replacing those being lost through exits and jobs that are lost through downsizing.

The third column in Table 2.2 shows the overall percentages of total gross employment created by each firm size category over the 1989-1995 period. These percentages take into account employment for firms that entered the economy, and those existing firms which increased employment. Over the 1989-1995 period, 62.6% of gross employment in the Atlantic region was created by small firms. While new firms continue to feed new employment into the economy, the small business sector remains the dominant force in overall gross percentage employment gains.

*Table 2.2*

**Employment Creation by Size of Firm**  
**Atlantic Canada**  
**1989-1995**

Firm Size (# of employees)	Percent of Gross Employment Created by New Firms	Percent of Gross Employment Created by All Firms
<5	36.0	25.9
5-19	18.1	17.9
20-49	10.2	11.7
50-99	6.6	7.1
<b>Small Firms</b>	<b>70.9</b>	<b>62.6</b>
100-499	12.4	13.4
500+	16.7	24.0
<b>All Firms</b>	<b>100.0</b>	<b>100.0</b>

*Source: Special Run of Employment Dynamics*

**Employment Distribution by Size of Firm**

Total employment in Canada decreased by 362,700 over the 1989-1995 period and this decrease can be totally attributed to large firms which lost 375,200 jobs. Overall, the small business sector gained a total of 11,300 jobs (Table 2.3). The micro-firm category (<5 employees) contributed 95,700 jobs, increasing its share of overall employment in Canada from 8.5% to 9.6%, the largest gain in percentage terms of all size categories.

The loss of 137,300 jobs in the 5-19 employees category appears to be somewhat of an anomaly. The decrease in jobs in this category is consistent with Atlantic Canada as a region and each province in the region with the exception of Prince Edward Island which registered a slight gain. Some elaboration will be made on this later.

The Atlantic region did not fare well during the 1989-1995 period. Overall employment was down 57,200 or 6.8% (Table 2.4).

*Table 2.3*

**Employment Patterns by Size of Firm  
Canada  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	974.4	8.5	1,070.1	9.6	95.7	9.8
5-19	1,529.7	13.4	1,392.4	12.5	-137.3	-9.0
20-49	1,195.4	10.4	1,210.4	10.8	15.0	1.3
50-99	829.7	7.2	867.6	7.8	37.9	4.6
<b>Small Firms</b>	<b>4,529.2</b>	<b>39.3</b>	<b>4,540.5</b>	<b>40.7</b>	<b>11.3</b>	<b>0.3</b>
100-499	1,700	14.8	1,701.2	15.2	1.2	0.1
500+	5,299.6	46.0	4,924.4	44.1	-375.2	-7.1
<b>All Firms</b>	<b>11,528.8</b>	<b>100.0</b>	<b>11,166.1</b>	<b>100.0</b>	<b>-362.7</b>	<b>-3.2</b>

*Source: Employment Dynamics*

While the greatest decline in employment in Atlantic Canada occurred in the medium to large firms (41,000), there was also a significant decline in employment in the small business sector with a loss of some 16,200 jobs. This decrease can be attributed to the decline of 17,000 jobs in the 5-19 employees category. Table 1.9 in Chapter 1 partly explains this decline in that 4,100 firms left this category over the period while only 2,200 firms entered – a net change of 1,900 firms. Assuming an average employment per firm of 10-12, the net change in firms would more than account for the decrease. The volatility in firm movement among firm sizes appears to be between the <5 and the 5-19 employees categories. It is not possible to know where the outflows of 4,100 firms went. They may have exited the economy, slipped to the <5 employee category or grew to become larger. It appears, however, that they did not take a great number of jobs with them since both the net change in firms and the net change in employment in all other size categories have remained relatively flat in the small business category over the 1989-1995 period. While there was a net increase of 7,000 firms into the micro-firm category (<5 employees), the net job creation was only 400 (Table 2.4). This would indicate significant downsizing in the micro-firm category.

*Table 2.4*

**Employment Patterns by Size of Firm**  
**Atlantic Canada**  
**1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	77.5	9.2	77.9	9.9	0.4	0.5
5-19	113.2	13.4	96.2	12.2	-17.0	-15.0
20-49	77.5	9.2	79	10.0	1.5	1.9
50-99	51.9	6.1	50.8	6.4	-1.1	-2.1
<b>Small Firms</b>	<b>320.1</b>	<b>37.8</b>	<b>303.9</b>	<b>38.5</b>	<b>-16.2</b>	<b>-5.1</b>
100-499	111.6	13.2	96.7	12.3	-14.9	-13.4
500+	414.7	49.0	388.6	49.3	-26.1	-6.3
<b>All Firms</b>	<b>846.4</b>	<b>100.0</b>	<b>789.2</b>	<b>100.0</b>	<b>-57.2</b>	<b>-6.8</b>

*Source: Employment Dynamics*

In examining the movement in the medium to large firms (>100 employees), there was a net increase of 300 firms in this size category (Table 1.9 in Chapter 1), yet, employment decreased in this category by 41,000. Again, there appears to be significant downsizing taking place over the 1989-1995 period.

In examining the Atlantic region by province, there appears to be some significant differences. Losses in employment in small business in Newfoundland and Labrador and Nova Scotia more than offset the gains in New Brunswick and Prince Edward Island. In Newfoundland and Labrador (Table 2.5), the employment loss of 4,100 in small businesses represented 27% of the total (15,000). In Nova Scotia (Table 2.6), there was a 14,100 decline in small business employment which represented almost 44% of the total decline of 32,200. Of the total of 57,200 jobs lost in the Atlantic region, 47,200 or 83% were lost in Newfoundland and Labrador and Nova Scotia. Firms with 100 or more employees represented 61% of the total job losses in these two provinces.

*Table 2.5*

**Employment Patterns by Size of Firm  
Newfoundland and Labrador  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	17.1	9.6	17.3	10.6	0.2	1.2
5-19	22.6	12.7	19.6	12.0	-3.0	-13.3
20-49	14.4	8.1	13.5	8.3	-0.9	-6.3
50-99	10.1	5.7	9.7	5.9	-0.4	-4.0
<b>Small Firms</b>	<b>64.2</b>	<b>35.9</b>	<b>60.1</b>	<b>36.7</b>	<b>-4.1</b>	<b>-6.4</b>
100-499	19.8	11.1	16.8	10.3	-3.0	-15.2
500+	94.7	53.0	86.8	53.0	-7.9	-8.3
<b>All Firms</b>	<b>178.7</b>	<b>100.0</b>	<b>163.7</b>	<b>100.0</b>	<b>-15.0</b>	<b>-8.4</b>

*Source: Employment Dynamics*

*Table 2.6*

**Employment Patterns by Size of Firm  
Nova Scotia  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	29	8.3	27.1	8.5	-1.9	-6.6
5-19	46.1	13.2	35.6	11.2	-10.5	-22.8
20-49	32.2	9.2	32.1	10.1	-0.1	-0.3
50-99	22.1	6.3	20.5	6.4	-1.6	-7.2
<b>Small Firms</b>	<b>129.4</b>	<b>36.9</b>	<b>115.3</b>	<b>36.2</b>	<b>-14.1</b>	<b>-10.9</b>
100-499	51	14.5	45.7	14.4	-5.3	-10.4
500+	170.3	48.6	157.5	49.5	-12.8	-7.5
<b>All Firms</b>	<b>350.7</b>	<b>100.0</b>	<b>318.5</b>	<b>100.0</b>	<b>-32.2</b>	<b>-8.2</b>

*Source: Employment Dynamics*

As with Canada as a whole and the Atlantic region, significant job losses occurred in the 5-19 employees category in every Atlantic province. This cannot be explained totally with the available data.

New Brunswick and Prince Edward Island present a somewhat different picture in that some increases in the small business sector were realized – 300 in New Brunswick and 1,700 in Prince Edward Island. Again, significant job losses occurred in the 5-19 employees category. In New Brunswick, any employment gains in small businesses were more than offset by losses in medium to large firms as this group lost 12,200 jobs (Table 2.7).

Table 2.7

Employment Patterns by Size of Firm  
New Brunswick  
1989-1995

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	25.4	9.4	27.0	10.4	1.6	6.3
5-19	36.1	13.3	32.9	12.7	-3.2	-8.9
20-49	26.2	9.7	27.5	10.6	1.3	5.0
50-99	16.4	6.1	17.0	6.6	0.6	3.7
Small Firms	104.1	38.4	104.4	40.3	0.3	0.3
100-499	33.3	12.3	28.1	10.9	-5.2	-15.6
500+	133.4	49.3	126.4	48.8	-7.0	-5.3
All Firms	270.8	100.0	258.9	100.0	-11.9	-4.4

Source: Employment Dynamics

In Prince Edward Island (Table 2.8), the net increase in employment was 1,900 and almost 90% of this increase occurred in small businesses (1,700 versus 200). Interestingly, there was a net gain of 1,600 jobs in the large firms (>500) and a net loss of 1,400 jobs in the medium-sized firms (100-499).

*Table 2.8*

**Employment Patterns by Size of Firm  
Prince Edward Island  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	6.0	13.0	6.5	13.5	0.5	8.3
5-19	8.4	18.2	8.1	16.8	-0.3	-3.6
20-49	4.7	10.2	5.9	12.3	1.2	25.6
50-99	3.3	7.14	3.6	7.5	0.3	9.1
<b>Small Firms</b>	<b>22.4</b>	<b>48.5</b>	<b>24.1</b>	<b>50.1</b>	<b>1.7</b>	<b>7.6</b>
100-499	7.5	16.2	6.1	12.7	-1.4	-18.7
500+	16.3	35.3	17.9	37.2	1.6	9.8
<b>All Firms</b>	<b>46.2</b>	<b>100.0</b>	<b>48.1</b>	<b>100.0</b>	<b>1.9</b>	<b>4.1</b>

*Source: Employment Dynamics*

**Employment Distribution by Sector**

As can be seen from Tables 2.9 and 2.10, the goods-producing sector suffered the greatest decline in employment in both Canada as a whole and in Atlantic Canada. In Canada, the gains in other sectors were more than offset by the 444,700 job losses in the goods-producing sector. The manufacturing industry represented 55.6% of the job losses. All other sectors lost ground with the exception of the funded sector which offset some of the losses by contributing 142,200 jobs.

**Table 2.9**

**Distribution of Employment by Industry/Sector**  
**Canada**  
**1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	153.9	1.3	128	1.2	-25.9	-16.8	7.1
Mining	202.8	1.8	170.5	1.5	-32.3	-15.9	8.9
Manufacturing	2,092.1	18.2	1,844.7	16.5	-247.4	-11.8	68.1
Construction	565.7	4.9	426.6	3.8	-139.1	-24.6	38.3
<b>Goods Producing</b>	<b>3,014.5</b>	<b>26.2</b>	<b>2,569.8</b>	<b>23</b>	<b>-444.7</b>	<b>-14.8</b>	<b>122.5</b>
Wholesale	613.8	5.3	601.1	5.4	-12.7	-2.1	3.5
Retail	1,431.0	12.4	1,414.8	12.7	-16.2	-1.1	4.5
<b>Trade</b>	<b>2,044.8</b>	<b>17.7</b>	<b>2,015.9</b>	<b>18.1</b>	<b>-28.9</b>	<b>-1.4</b>	<b>8.0</b>
T, C & U	817.7	7.1	789.8	7.1	-27.9	-3.4	7.7
FIRE	780.6	6.8	691.7	6.2	-88.9	-11.4	24.5
P & B							
Services	2,021.4	17.5	2,097.4	18.8	76	3.8	-20.9
<b>Market Services</b>	<b>3,619.7</b>	<b>31.4</b>	<b>3,578.9</b>	<b>32.1</b>	<b>-40.8</b>	<b>-1.1</b>	<b>11.2</b>
Community Services	1,762.6	15.3	1,907.6	17.1	145	8.2	-39.9
Public Administration	1,053.0	9.1	1,050.2	9.4	-2.8	-0.3	0.8
<b>Funded Sector</b>	<b>2,815.6</b>	<b>24.4</b>	<b>2,957.8</b>	<b>26.5</b>	<b>142.2</b>	<b>5.1</b>	<b>-39.2</b>
<b>Unclassified</b>	<b>34.5</b>	<b>0.3</b>	<b>43.6</b>	<b>0.4</b>	<b>9.1</b>	<b>26.4</b>	<b>-2.5</b>
<b>TOTAL</b>	<b>11,529.1</b>	<b>100</b>	<b>11,166.0</b>	<b>100</b>	<b>-363.1</b>	<b>-3.2</b>	<b>100</b>

Source: *Employment Dynamics*

Note: Abbreviations – Transportation, Communications and Utilities (T, C & U), Finance, Insurance and Real Estate (FIRE) and Personal and Business Services (P & B Services). Community Services include Education, Health and Welfare.

*Table 2.10*

**Distribution of Employment by Industry/Sector  
Atlantic Canada  
1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	20.2	2.4	18.3	2.4	-1.9	-9.4	2.7
Mining	14.2	1.7	12.3	1.6	-1.9	-13.4	2.7
Manufacturing	106.6	12.6	86.3	11.1	-20.3	-19.0	29.2
Construction	41.2	4.9	41.3	5.3	0.1	0.2	-0.1
<b>Goods</b>							
<b>Producing</b>	<b>182.2</b>	<b>21.5</b>	<b>158.2</b>	<b>20.4</b>	<b>-24.0</b>	<b>-13.2</b>	<b>34.5</b>
Wholesale	45.3	5.4	34.3	4.4	-11.0	-24.3	15.8
Retail	125.9	14.9	114.4	14.7	-11.5	-9.1	16.5
<b>Trade</b>	<b>171.2</b>	<b>20.2</b>	<b>148.7</b>	<b>19.1</b>	<b>-22.5</b>	<b>-13.1</b>	<b>32.4</b>
T, C & U	56.6	6.7	54.6	7.0	-2.0	-3.5	2.9
FIRE	43.7	5.2	35.2	4.5	-8.5	-19.5	12.2
P & B							
Services	132.3	15.6	124.7	16.0	-7.6	-5.7	10.9
<b>Market</b>							
<b>Services</b>	<b>232.6</b>	<b>27.5</b>	<b>214.5</b>	<b>27.6</b>	<b>-18.1</b>	<b>-7.8</b>	<b>26.0</b>
Community							
Services	114.5	13.5	119.4	15.4	4.9	4.3	-7.1
Public							
Administration	144.7	17.1	135.2	17.4	-9.5	-6.6	13.7
<b>Funded</b>							
<b>Sector</b>	<b>259.2</b>	<b>30.6</b>	<b>254.6</b>	<b>32.8</b>	<b>-4.6</b>	<b>-1.8</b>	<b>6.6</b>
Unclassified	1.5	0.2	1.2	0.2	-0.3	-20.0	0.4
<b>TOTAL</b>	<b>846.7</b>	<b>100.0</b>	<b>777.2</b>	<b>100.0</b>	<b>-69.5</b>	<b>-8.2</b>	<b>100.0</b>

Source: *Employment Dynamics*

The situation in Atlantic Canada<sup>1</sup> (Table 2.10) was somewhat similar but not as dramatic. All major sectors had a net decrease in employment. The goods-producing sector experienced a net decrease in employment of 24,000 or 34% of the 69,500 decrease. Manufacturing lost 20,300 jobs and this, as was the case in Canada as a whole, represented the largest number of jobs lost compared with other industries (29%). The only positive note for the region over the 1989-1995 period is that community services increased by 4,900 jobs.

Manufacturing employment was down in all the Atlantic provinces. The most notable decrease was in Newfoundland and Labrador (Table 2.11) where 9,300 jobs were lost in this industry representing 45.8% of the total Atlantic Canada decrease in this industry. In fact, manufacturing represented 60% of the total loss in employment (15,500) in Newfoundland and Labrador. Employment was helped somewhat by increases in the construction industry (2,600), probably as a result of the Hibernia project. Community services also experienced a net increase in employment (3,900).

The 1989-1995 period was not a positive one for the Nova Scotia economy (Table 2.12). All sectors registered a decline. The economy lost 32,400 jobs. This represents 46.6% of Atlantic Canada's total job losses and a disproportionate 8.9% of the Canadian job losses. Again, the manufacturing industry suffered, losing 7,400 jobs or 22.8% of the total.

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<sup>1</sup>There is a difference of 12,300 employees between Tables 2.10 and 2.4. This difference is explained by rounding and confidentiality restrictions in the New Brunswick and Prince Edward Island statistics.

*Table 2.11*

**Distribution of Employment by Industry/Sector  
Newfoundland and Labrador  
1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	2.2	1.2	2.0	1.2	-0.2	-9.1	1.3
Mining	3.9	2.2	3.3	3.0	-0.6	-15.4	3.9
Manufacturing	21.3	11.9	12.0	7.4	-9.3	-43.7	60.0
Construction	7.4	4.1	10.0	6.1	2.6	35.1	-16.8
<b>Goods Producing</b>	<b>34.8</b>	<b>19.5</b>	<b>27.3</b>	<b>16.7</b>	<b>-7.5</b>	<b>-21.6</b>	<b>48.4</b>
Wholesale	8.0	4.5	6.1	3.7	-1.9	-23.8	12.3
Retail	25.6	14.3	25.3	15.5	-0.3	-1.2	1.9
<b>Trade</b>	<b>33.6</b>	<b>18.8</b>	<b>31.4</b>	<b>19.2</b>	<b>-2.2</b>	<b>-6.6</b>	<b>14.2</b>
T, C & U	11.6	6.5	11.5	7.1	-0.1	-0.9	0.6
FIRE	7.8	4.4	6.3	3.9	-1.5	-19.2	9.7
P & B Services	31.1	17.4	27.8	17.0	-3.3	-10.6	21.3
<b>Market Services</b>	<b>50.5</b>	<b>28.3</b>	<b>45.6</b>	<b>27.9</b>	<b>-4.9</b>	<b>-9.7</b>	<b>31.6</b>
Community Services	21.6	12.1	25.5	15.6	3.9	18.1	-25.2
Public Administration	37.8	21.2	33.0	20.2	-4.8	-12.7	31.0
<b>Funded Sector</b>	<b>59.4</b>	<b>33.2</b>	<b>58.5</b>	<b>35.9</b>	<b>-0.9</b>	<b>-1.5</b>	<b>5.8</b>
<b>Unclassified</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>TOTAL</b>	<b>178.7</b>	<b>100.0</b>	<b>163.2</b>	<b>100.0</b>	<b>-15.5</b>	<b>-8.67</b>	<b>100.0</b>

Source: *Employment Dynamics*

*Table 2.12***Distribution of Employment by Industry/Sector****Nova Scotia****1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	6.7	1.9	5.8	1.8	-0.9	-13.4	2.8
Mining	6.0	1.7	5.2	1.6	-0.8	-13.3	2.5
Manufacturing	46.7	13.3	39.3	12.3	-7.4	-15.9	22.8
Construction	17.8	5.1	13.7	4.3	-4.1	-23.0	12.7
<b>Goods Producing</b>	<b>77.2</b>	<b>22.0</b>	<b>64.0</b>	<b>20.1</b>	<b>-13.2</b>	<b>-17.1</b>	<b>40.7</b>
Wholesale	15.8	4.5	13.0	4.1	-2.8	-17.7	8.6
Retail	53.1	15.1	49.6	15.6	-3.5	-6.6	10.8
<b>Trade</b>	<b>68.9</b>	<b>19.6</b>	<b>62.6</b>	<b>19.6</b>	<b>-6.3</b>	<b>-9.14</b>	<b>19.4</b>
T, C & U	22.0	6.3	20.2	6.3	-1.8	-8.2	5.6
FIRE	19.6	5.6	16.1	5.1	-3.5	-17.9	10.8
P & B							
Services	51.8	14.8	48.9	15.4	-2.9	-5.6	9.0
<b>Market Services</b>	<b>93.4</b>	<b>26.6</b>	<b>85.2</b>	<b>26.8</b>	<b>-8.2</b>	<b>-8.8</b>	<b>25.3</b>
Community Services	55.4	15.8	52.6	16.5	-2.8	-5.1	8.6
Public Administration	55.4	15.8	53.9	16.9	-1.5	-2.7	4.6
<b>Funded Sector</b>	<b>110.8</b>	<b>31.6</b>	<b>106.5</b>	<b>33.4</b>	<b>-4.3</b>	<b>-3.9</b>	<b>13.3</b>
Unclassified	0.6	0.2	0.2	0.1	-0.4	-66.7	1.2
<b>TOTAL</b>	<b>350.9</b>	<b>100.0</b>	<b>318.5</b>	<b>100.0</b>	<b>-32.4</b>	<b>-9.2</b>	<b>100.0</b>

*Source: Employment Dynamics*

The goods-producing sector as a whole lost 40.7% of the total job losses followed by the market services sector at 25.3%.

The New Brunswick statistics on employment distribution over the 1989-1995 period show a somewhat different pattern as compared to the other three provinces (Table 2.13).

*Table 2.13*

**Distribution of Employment by Industry/Sector**  
**New Brunswick**  
**1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	8.8	3.3	8.4	3.3	-0.4	-4.6	2.2
Mining	4.3	1.6	3.8	1.5	-0.5	-11.6	2.8
Manufacturing	34.4	12.7	31.0	12.2	-3.4	-9.9	19.1
Construction	13.3	4.9	12.5	4.9	-0.8	-6.0	4.5
<b>Goods</b>							
<b>Producing</b>	<b>60.8</b>	<b>22.4</b>	<b>55.7</b>	<b>22.0</b>	<b>-5.1</b>	<b>-8.4</b>	<b>28.7</b>
Wholesale	19.3	7.1	13.9	5.5	-5.4	-28.0	30.3
Retail	40.5	14.9	32.6	12.9	-7.9	-19.5	44.4
<b>Trade</b>	<b>59.8</b>	<b>22.1</b>	<b>46.5</b>	<b>18.4</b>	<b>-13.3</b>	<b>-22.2</b>	<b>74.7</b>
T, C & U	20.5	7.6	20.0	7.9	-0.5	-2.4	2.8
FIRE	14.3	5.3	11.0	4.3	-3.3	-23.1	18.5
P & B							
Services	41.4	15.3	40.1	15.9	-1.3	-3.1	7.3
<b>Market</b>							
<b>Services</b>	<b>76.2</b>	<b>28.1</b>	<b>71.1</b>	<b>28.1</b>	<b>-5.1</b>	<b>-6.7</b>	<b>28.7</b>
Community							
Services	30.7	11.3	34.6	13.7	3.9	12.7	-21.9
Public							
Administration	43.1	15.9	44.8	17.7	1.7	3.9	-9.6
<b>Funded</b>							
<b>Sector</b>	<b>73.8</b>	<b>27.2</b>	<b>79.4</b>	<b>31.4</b>	<b>5.6</b>	<b>7.6</b>	<b>-31.5</b>
<b>Unclassified</b>	<b>0.4</b>	<b>0.2</b>	<b>0.5</b>	<b>0.2</b>	<b>0.1</b>	<b>25.0</b>	<b>-0.6</b>
<b>TOTAL</b>	<b>271.0</b>	<b>100.0</b>	<b>253.2</b>	<b>100.0</b>	<b>-17.8</b>	<b>-6.6</b>	<b>100.0</b>

Source: *Employment Dynamics*

While manufacturing was down significantly in New Brunswick, with a net employment decrease of 3,400 (19.1% of the total), wholesale and retail trade registered the largest loss with a decrease in employment of 13,300 or almost 75% of the total employment loss in the province. The comparative percentages for Newfoundland and Labrador, Nova Scotia and Prince Edward Island were 14.2%, 19.4% and 18.4% respectively. The economy in New Brunswick was buoyed up by the funded sector which registered a net increase in employment of 5,600.

For the Prince Edward Island economy, some data may be suppressed because of confidentiality guidelines. It should be noted that large firms contributed 84% of the net increase in employment (Table 2.14) and the construction industry realized a 2,400 increase in jobs over the period, offsetting most of the job losses. This could be attributed to activity surrounding the fixed link project. The funded sector showed an increase of 5,000 jobs, more than offsetting total job losses. The rest of the sectors remained relatively flat in terms of employment movement.

In conclusion, it can be said that despite the volatility within and among provinces, the small business component of the economy has remained strong. The share of total employment distribution for small businesses in 1995 increased in Canada to 40.7% from 39.3% in 1989. In Atlantic Canada the small business share increased from 37.8% in 1989 to 38.5% in 1995. With the exception of Nova Scotia, all other provinces experienced similar employment distribution gains. The goods-producing sector showed significant decreases in employment in Canada and Atlantic Canada. In the case of both Canada as a whole and the Atlantic region, the manufacturing industry contributed significantly to employment loss.

*Table 2.14*

**Distribution of Employment by Industry/Sector**  
**Prince Edward Island**  
**1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	2.5	5.4	2.1	5.0	-0.4	-16.0	10.5
Mining	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	4.2	9.1	4.0	9.5	-0.2	-4.8	5.3
Construction	2.7	5.9	5.1	12.1	2.4	88.9	-63.2
<b>Goods</b>							
<b>Producing</b>	<b>9.4</b>	<b>20.4</b>	<b>11.2</b>	<b>26.48</b>	<b>1.8</b>	<b>19.2</b>	<b>-47.4</b>
Wholesale	2.2	4.8	1.3	3.1	-0.9	-40.9	23.7
Retail	6.7	14.5	6.9	16.3	0.2	3.0	-5.3
<b>Trade</b>	<b>8.9</b>	<b>19.3</b>	<b>8.2</b>	<b>19.4</b>	<b>-0.7</b>	<b>-7.9</b>	<b>18.4</b>
T, C & U	2.5	5.42	2.9	6.9	0.4	16.0	-10.5
FIRE	2.0	4.3	1.8	4.3	-0.2	-10.0	5.3
P & B							
Services	8.0	17.4	7.9	18.7	-0.1	-1.25	2.6
<b>Market</b>							
<b>Services</b>	<b>12.5</b>	<b>27.1</b>	<b>12.6</b>	<b>29.8</b>	<b>0.1</b>	<b>0.8</b>	<b>-2.6</b>
Community							
Services	6.8	14.8	6.7	15.8	-0.1	-1.5	2.6
Public							
Administration	8.4	18.2	3.5	8.3	-4.9	-58.3	128.9
<b>Funded</b>							
<b>Sector</b>	<b>15.2</b>	<b>33.0</b>	<b>10.2</b>	<b>24.1</b>	<b>-5.0</b>	<b>-32.9</b>	<b>131.6</b>
Unclassified	0.1	0.2	0.1	0.2	0.0	0.0	0.0
<b>TOTAL</b>	<b>46.1</b>	<b>100.0</b>	<b>42.3</b>	<b>100.0</b>	<b>-3.8</b>	<b>-8.2</b>	<b>100.0</b>

*Source: Employment Dynamics*

## Chapter Three

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# Entrepreneurial Start-Ups in Atlantic Canada

This chapter summarizes the results of a recently published research study<sup>1</sup> carried out by Dr. Helen Mallette of Mount Saint Vincent University and Dr. Norman McGuinness of Acadia University. The purpose of the research, which was jointly funded by the Atlantic Canada Opportunities Agency and the Acadia Centre for Small Business and Entrepreneurship, was to learn more about the entrepreneurial start-up process. Key elements of the process were integrated into a model which was tested with data from a survey of new entrepreneurs throughout Atlantic Canada. The study was designed specifically for the needs of counsellors and others who help people to become entrepreneurs, and investigated such issues as:

- Which aspects of the business start-up process are likely to have the most impact on success?
- How can counsellors intervene more effectively?
- Do high achievers go through business start-up differently than low achievers?
- How can counsellors adapt their services to meet the varying needs of different entrepreneurs?

Research questionnaires were sent out during late 1996 and early 1997 using client lists provided by business counselling centres throughout the Atlantic region. Some 912 usable responses were received from a total distribution of 7,083, a response rate of 12.9%.

### Overview of the Research Model

The research began with a review of the current literature on start-up processes. While several models of the start-up process exist, they

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<sup>1</sup> *Entrepreneurial Start-Ups: Help for Counsellors*, sponsored by the Atlantic Canada Opportunities Agency and the Acadia Centre for Small Business and Entrepreneurship.

were not deemed suitable for the following reasons. First, most of the models utilize theoretical constructs that have not been tested with empirical data. While such models provide good sources of ideas, they usually have to be changed considerably to be used for practical purposes. Second, existing models, including those that have been tested with data, are generally not helpful to business counsellors. The problem lies within the models themselves. Many use too general a view, thus lack detail. Others are too narrowly focussed on specific aspects of the entrepreneurship process.

As a result, it was decided that a new model was needed combining practical information for counsellors with key elements of the start-up process. The basic model consists of three components (Figure 3.1):

- Background Factors – such as the entrepreneur's experience level, level of need for achievement and individual circumstances;
- Process Activities – variables linked to preparing for start-up; and
- Outcomes – variables reflecting the entrepreneur's mental outlook just before making the decision to start a new business.

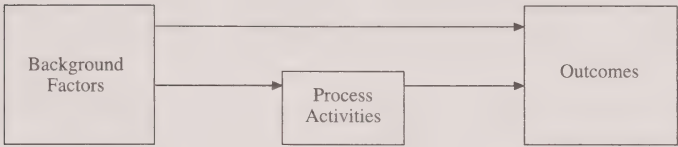
The report then details each part of the model.

### **Outcomes**

The study approaches the question of Outcomes of the entrepreneurial process through application of the Theory of Planned Behaviour which is based on the premise that the best predictor of behaviour is the intention to perform the behaviour. *Intention*, in turn, is the product of three variables. The first, *Attitude*, indicates the degree to which the person believes that the behaviour will lead to desired outcomes. The second, *Subjective Norm*, refers to how much the person believes that prominent referent people in his/her life will approve or disapprove of the behaviour. The third, *Perceived Control*, recognizes that a person seldom has complete control over all of the factors which affect successful performance. This concept captures the degree to which the person believes he/she can exercise control over behaviour.

Figure 3.1

Model - The Main Sections



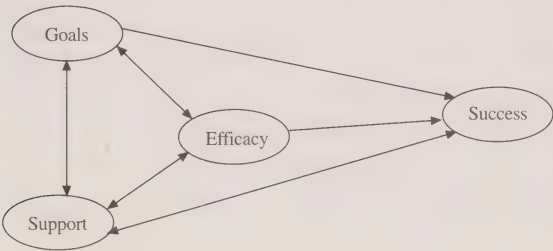
To apply the Theory of Planned Behaviour to the entrepreneurial start-up process, the authors found that, for various reasons, the concept of *Intentions* did not fit well with the final model. Instead, the concept of *Success* was substituted (Figure 3.2). *Success*, is comprised of two dimensions:

- Met Expectations – the degree to which the perceived business success of the start-up met the entrepreneur’s expectations; and
- Personal Success – the perception that life improved after start-up, e.g. enjoyable work, more balanced life and marital stress.

The other variables were also adapted to fit the entrepreneurship process. *Attitude Toward Behaviour* became *Goals*, *Subjective Norms* became *Support*, and *Perceived Control* became *Efficacy*. Several dimensions were identified regarding each of these variables.

Figure 3.2

Expected Arrangement of the Outcomes Section



*Goals* were described as what motivates one to become an entrepreneur. The study identified the following dimensions:

- Autonomy – the desire for control over one's life;
- Quality of Life – desire to gain such things as job security, better financial situation, improved family life and a better future; and
- Status – recognition within the community.

*Support* is the degree of encouragement the entrepreneur receives from family and friends during start-up. Identified dimensions were:

- Spouse or family support; and
- Friends – support provided by close friends and relatives.

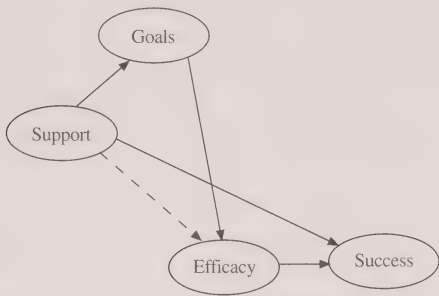
*Efficacy* refers to the degree to which the entrepreneur believes that he/she can actually make the start-up happen. The identified dimensions were:

- Confidence – the perception of having control, of not being at the whim of circumstances;
- Opportunity – the degree to which the business was still perceived to be attractive just before start-up;
- Low Uncertainty – the entrepreneur's perception of how low the uncertainties of start-up seem to be; and
- Ease – the perceived ease, or lack of difficulty, of starting the business.

The authors point out that the results of this survey were not quite what they expected (Figure 3.3). However, *Efficacy* had its expected impact on *Success*. The more the entrepreneur was committed to the start-up, and the more the entrepreneur believed that the project was feasible, the higher the perceived success rating was likely to be. *Support* impacted on *Success* as expected, but to a greater degree than *Efficacy*. *Support* also impacted on *Goals*, indicating that family and friends provided understanding, advice and moral support for the goals of the entrepreneur. However, *Support* had no significant impact on *Efficacy*. *Goals* had no direct impact on *Success*, but did strengthen the entrepreneur's perception of *Efficacy*, thus having an indirect impact on *Success*.

Figure 3.3

Resulting Outcomes Section



Notes:

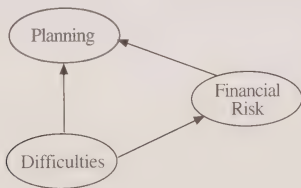
1. Dashed line indicates a connection which is not statistically significant.
2. Solid, straight line indicates a significant relationship.

Process Activities

The report also addresses Process Activities – a serious part of getting ready to start a business. These activities take place over a period of time. At the beginning, there is often a good deal of vagueness about what needs to be done. There may be uncertainty about whether becoming an entrepreneur is a good idea. Over time, entrepreneurs usually become more committed to the project and develop clearer ideas of their goals. They are, however, mainly concerned with hands-on preparations for start-up.

Figure 3.4

Process Activities Variables



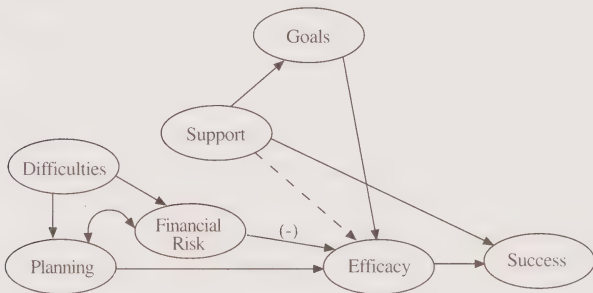
The process variables are *Planning*, *Difficulties* and *Financial Risk*, each of which influences the others (Figure 3.4). *Difficulties* refer to the unexpected difficulties encountered where the entrepreneur has to be persistent and resourceful. *Financial Risk* refers to the perceived risk levels and the impact that failure would have on the entrepreneur's financial situation. *Planning* consists of three dimensions:

- Advice sought from lawyers, accountants and other experts;
- Information gathered about the proposed business from a number of sources; and
- Planning effort – the degree to which the entrepreneur's plans were detailed, carefully done, and included specific operating goals.

The results of the Process Activities section of the model is linked to the Outcomes section in Figure 3.5.

**Figure 3.5**

### Process Activities and Outcomes Linked Together



**Notes:**

1. Dashed line indicates a connection which is not statistically significant.
2. Curved line indicates a correlation between two variables.
3. Solid, straight line indicates a significant relationship.

The three variables in the Process Activities part of the model seemed to behave as expected. *Difficulties* had a positive impact on both *Planning* and *Financial Risk*, in that the more difficulties perceived by entrepreneurs, the more they were driven to do more planning, and the higher degree of risk they perceived. *Planning* did not,

however, reduce *Financial Risk*. Instead, these variables were connected in a positive way – they increased and decreased together. *Financial Risk* also reduced *Efficacy* while *Planning* strengthened *Efficacy*, but not as much as anticipated.

### **Background Factors – Experience and Individual Circumstances**

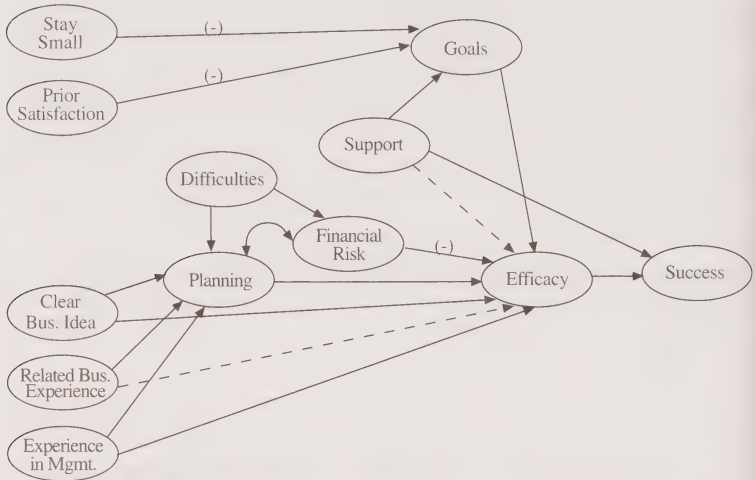
As indicated previously, Background Factors consisted of three elements. Two of these, Experience and Individual Circumstances, are discussed in this section. The third, Need for Achievement, is discussed in the next section. Experience and Individual Circumstances were identified as:

- Prior Satisfaction – satisfaction with personal employment or financial situation may demotivate people to become entrepreneurs;
- Stay Small – degree to which entrepreneur expected the business to remain small;
- Clear Business Idea – degree to which he/she had a clear business idea at the start and was strongly committed to starting;
- Related Business Experience – extent to which entrepreneur's experience was relevant to the business being started; and
- Experience in Management – how much experience the entrepreneur had in management activities.

Figure 3.6 connects the Experience and Individual Circumstances variables to the remainder of the model. The *Stay Small* variable indicates that those entrepreneurs who expected their businesses to stay small had very little interest in goals. The *Prior Satisfaction* variable had a negative impact on goals. Entrepreneurs who have a *Clear Business Idea* tend to do more *Planning* and have a stronger sense of personal *Efficacy*. Both *Related Business Experience* and *Experience in Management* had a small but positive effect on *Planning*, but only *Experience in Management* had an impact on *Efficacy*.

**Figure 3.6**

### Results of Background – Experience and Individual Circumstances



#### Notes:

1. Dashed line indicates a connection which is not statistically significant.
2. Curved line indicates a correlation between two variables.
3. Solid, straight line indicates a significant relationship.

### Background Factors – Need for Achievement

The authors consider Need for Achievement (nAch) as a significantly different background factor from previous experience and individual circumstances. While those factors relate to the entrepreneur's life experiences and personal preferences, nAch is thought to be a trait acquired when very young. Research indicates that both entrepreneurs and managers generally have higher levels of nAch than others; however, the nAch of entrepreneurs does not necessarily exceed that of managers. A person with high nAch has three specific characteristics:

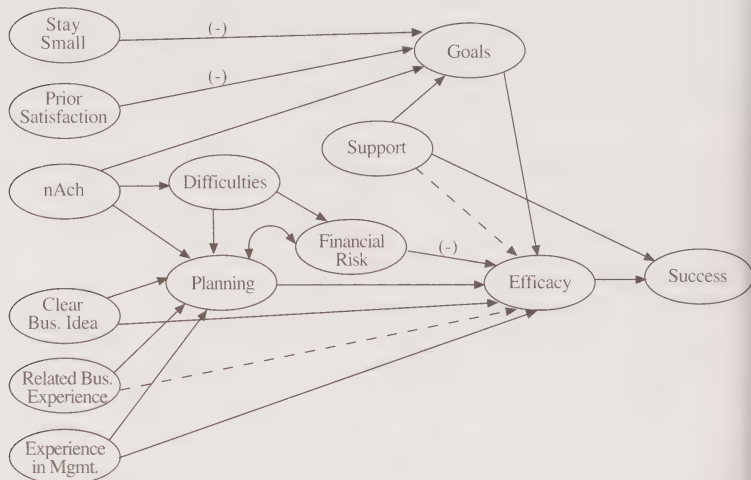
- The person likes situations where he/she takes personal responsibility for finding solutions to problems;
- The person has a tendency to set moderate achievement goals and take calculated risks; and
- The person wants concrete feedback on how well he/she is doing.

From a counselling perspective, one expects that people with high nAch will set relatively ambitious goals and will hate to fail, thus are likely to be careful planners. They will feel challenged by unexpected problems and will persist to find solutions. People with low nAch, on the other hand, will fear challenges and lack confidence to take risks. The challenge for counsellors is to help these people gain confidence by pointing out incremental successes throughout the start-up process.

nAch was measured using the Work and Family Orientation (WOFO) scale, which assesses individuals in terms of four dimensions:

- Mastery – a desire to master something before moving on to something else;
- Work Orientation – a positive attitude toward work;
- Competitiveness – a desire to win in competitive situations; and
- Personal Unconcern – a lack of concern with the negative reactions of others.

Based on the survey results, it appears that nAch can have considerable impact on the start-up process. The model (Figure 3.7) confirms that people with high nAch want and seek out challenging goals, and are challenged by difficulties. People with high nAch hate to lose and take special care to avoid mistakes by preparing carefully before acting.

**Figure 3.7****Results of the Full Model****Notes:**

1. Dashed line indicates a connection which is not statistically significant.
2. Curved line indicates a correlation between two variables.
3. Solid, straight line indicates a significant relationship.

**Conclusions**

According to the authors, the goal of the report was to provide new insight into the process of entrepreneurial start-ups. While the relationship of nAch to entrepreneurship has received much attention in the research literature, use of the WOFO scale is new. This scale may become a useful tool for counsellors. Instead of trying to assess the impact of nAch on eventual success, the research hypothesized that the major impact of nAch would be on certain elements of the process. The research was thus able to clarify how nAch can be used to help counsellors. Finally, the use of a large integrated model allows the real complexity of the business start-up process to emerge and facilitates a better understanding of the many interactions involved between variables.

## Chapter Four

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# Women-Owned Businesses in Atlantic Canada: A Profile

Over the past 20 years, a great deal of attention has been paid to women's issues in the workplace. Much of the attention has tended to focus on general issues such as employment discrimination, sexual harassment and blockages to promotion (the glass ceiling). This attention has led to greater public awareness and, no doubt, to changing public attitudes and even legislative changes.

With the growing interest in small business and entrepreneurship in recent years, many writers and researchers are addressing the role women play in entrepreneurship. This may not be surprising since women are now better educated in business and have more business experience than they did two decades ago. In the 1990s, there are two generations of business-educated and experienced women who are ready to seize the possibilities created by market niches and to gamble on their own strengths and efforts.<sup>1</sup> The 1992 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* emphasized the increasingly important role that women-owned business play in our economy. The report states that "...in 1964, 11% of Canadian businesses were owned by women, but by 1989 this figure had increased to 30%," and that "50% of new business start-ups in Canada were by women."

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<sup>1</sup>What's Happening to Entrepreneurship, 1994, Mona Brandeen, Canadian Women Studies, Vol. 15, No. 1.

The purpose of this chapter is primarily to report on a study<sup>2</sup> commissioned by Women's World Finance/Cape Breton Association (WWF/CBA) and authored by Jody Manley and Joanne Galliran.<sup>3</sup>

The study, supported with funding from the Atlantic Canada Opportunities Agency, the University College of Cape Breton, Nova Scotia Economic Development and Tourism, Department of Canadian Heritage and Air Nova, was designed to identify the economic contribution made by women-owned businesses in the region. In addition, several related issues are addressed. These include: factors affecting start-up, characteristics of women-owned business, financing, education and training, work and family, and growth and expansion.

The study surveyed 1,400 women from the four Atlantic provinces between September and December 1996, from which 351 usable responses were received.

Throughout this chapter, comparisons with data from other documents may be made to illustrate certain major points.

### **Factors Influencing Start-Up**

Figure 4.1 presents 10 factors (plus one category called "other") that influenced women to start their own businesses.

Not surprisingly, high earnings potential did not rate highly in the respondents' choices (13.7%) since, for entrepreneurs generally, this is not a major motivation. Lack of employment (26.8%), however, could suggest that there was a financial element reflected in their decisions to seek the entrepreneurial route. Generally, the major reasons for starting up a new enterprise were less economically motivated and more personal in nature. Opportunity to be one's own boss ranked highest at 42.5%. Related to this was the respondents' need for personal accomplishment (39.3%). Both of these are related to an individual's need to achieve, a well-known motivational characteristic displayed by entrepreneurs.

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<sup>2</sup> *Measuring the Economic Impact: Women Business Owners in Atlantic Canada*, Women's World Finance/Cape Breton Association, Sydney, 1997. Unless otherwise stated, data in this chapter were sourced from this report. Throughout the remainder of this chapter, this report will be referred to as the WWF study.

<sup>3</sup> Associate Professors, University College of Cape Breton (UCCB).

The third highest rating is the perceived opportunity in the marketplace (31.1%), followed by flexibility in working conditions (28.2%) and the desire to balance work and family (28.8%). The latter is a major issue since women historically have been perceived by society as the keepers of the household and, in this survey, 72.5% were married at the time of start-up.

Figure 4.1

Factors Influencing Start-Up

Source: *Measuring the Economic Impact*

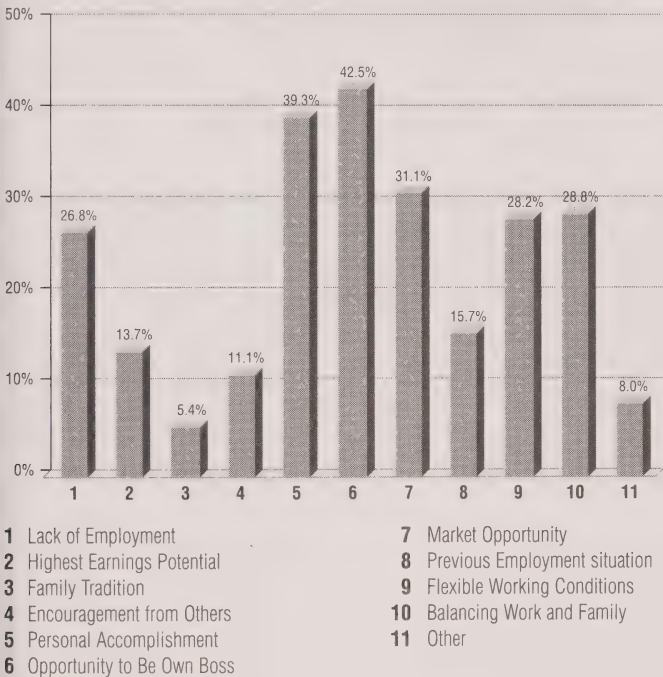
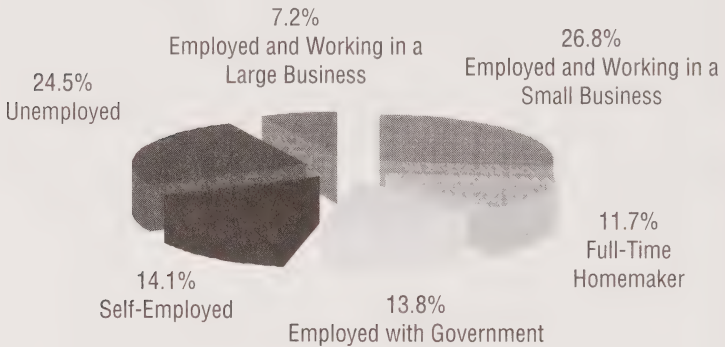


Figure 4.2 indicates the employment status of women entrepreneurs prior to starting their current business.

**Figure 4.2****Employment Status Prior to Starting Current Business**

Source: *Measuring the Economic Impact*

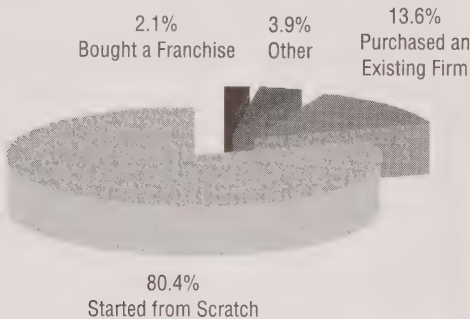


The 33.9% of women entrepreneurs who were working in small or large firms before start-up clearly had some business experience. The spin-off effect in the case of small businesses might be “if she can do it, so can I.” In the case of large businesses, a woman might be motivated by lack of flexibility, opportunity to be her own boss, or other reasons identified in Figure 4.1. In any case, the sources of women entrepreneurs are wide and varied. As can be seen in Figure 4.3, some 80.4% of women started their businesses from scratch, 13.6% bought existing businesses and 2.1% bought franchises.

Figure 4.3

How Current Business Was Started

Source: *Measuring the Economic Impact*

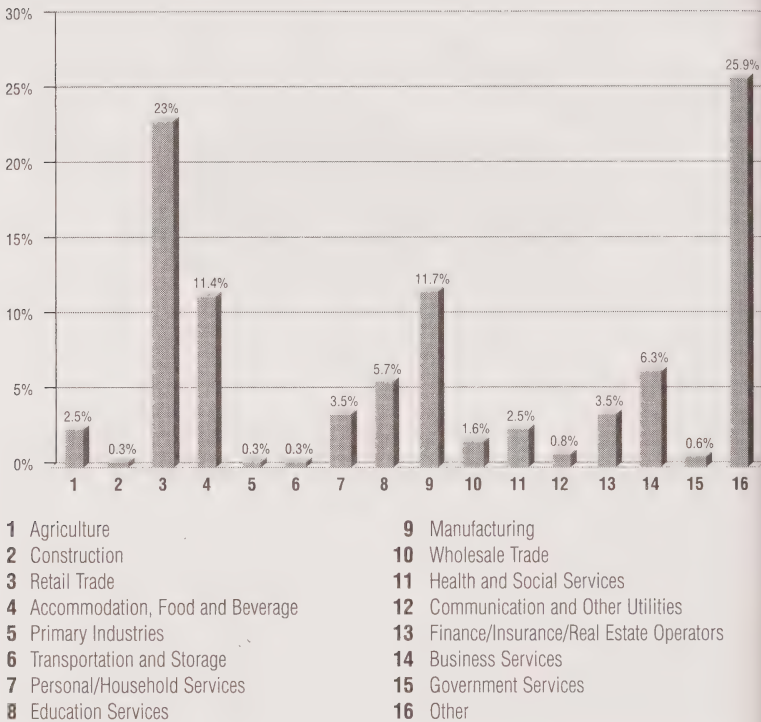


Characteristics of Women-Owned Businesses in Atlantic Canada

An effort was made to identify the percentage of respondents involved in the various industry sectors (see Figure 4.4). Because of the number of industry categories, the percentage responses in each are relatively small. When the various service sectors<sup>4</sup> are combined, the majority of women-owned businesses operate in this sector. Retail/wholesale is the second most common form of business for women at 24.6%. Interestingly, the percentage of the respondents operating in the “non-traditional” sectors appears to be growing.

The survey indicates that 11.7% of the respondents are in the manufacturing industry, while 3.1% are in construction, agriculture and primary industries. The 1992 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* indicated that 2.7% of self-employed women operated in the manufacturing industry while 3.5% were in the construction, agriculture and primary industries. While these percentages are not exactly comparable because of definitions, there appears to be an upward trend in the percentage of self-employed women operating in the manufacturing industry.

<sup>4</sup>The percentage reported for services includes businesses in the following sectors: Business Services; Government Services; Accommodation, Food and Beverage; Personal/Household Services; Education; and, Health and Social Services.

**Figure 4.4****Key Sectors Where Women Operate Businesses***Source: Measuring the Economic Impact*

It should be noted that some of the true percentages reported above may be distorted because of the large percentage in the “other” category.

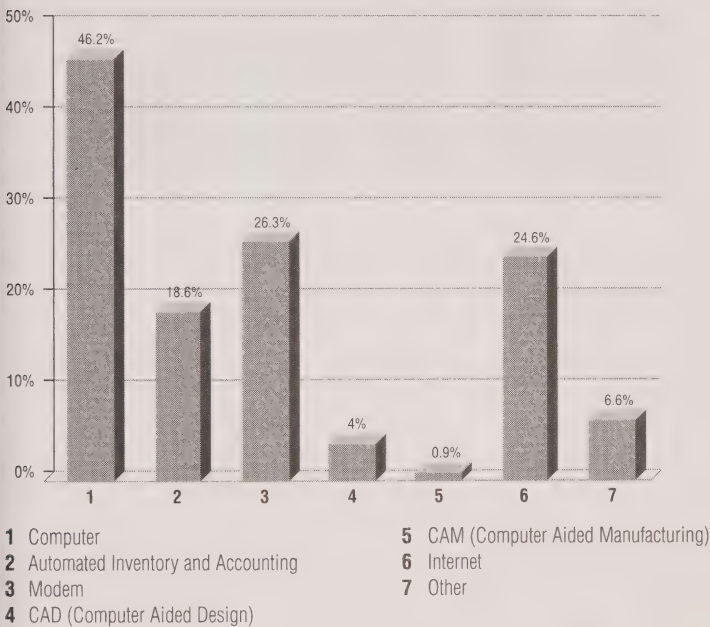
Figure 4.5 shows the degree to which women use various forms of technology in their business. This is important because of the changing nature of business operations and the need to embrace high technology in order to compete. One-fifth of the respondents considered their business to be “high tech.” While this is self-described, it does indicate a mind-set toward high technology. Thirty-eight per cent indicated that they use high technology in their business operations (see Figure 4.5).

Almost 50% of all respondents use a computer in their business. Therefore, not surprisingly, 26.3% use modems and 24.6% use the Internet as at least one means of communication. *The State of Small Business and Entrepreneurship in Atlantic Canada - 1996* reported on the use of technology by home-based businesses (men and women). By comparison, just 32% of home-based businesses used computers and 8.5% used a modem at that time (1995). Home-based business represents 51.9% of respondents in this study (see Figure 4.8).

Figure 4.5

Forms of Technology Used

Source: *Measuring the Economic Impact*



The WWF study also endeavoured to capture a profile of women-owned businesses with respect to markets served, age and location of business (see Figures 4.6, 4.7 and 4.8).

**Figure 4.6****Markets Served**

Source: *Measuring the Economic Impact*

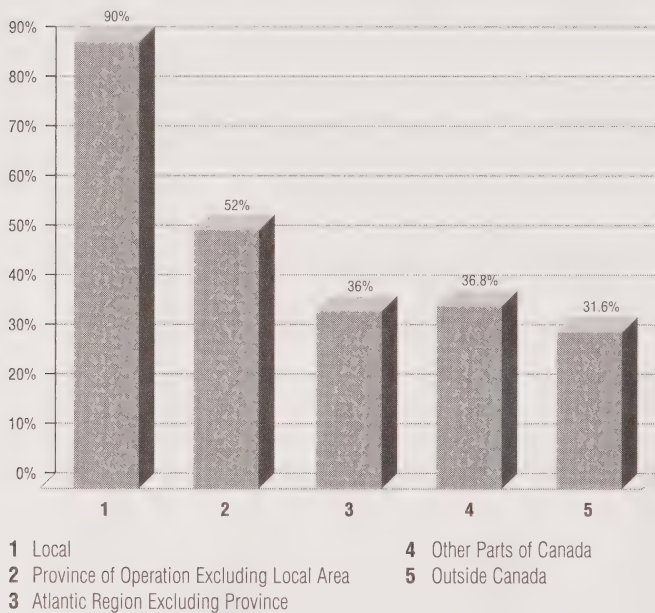
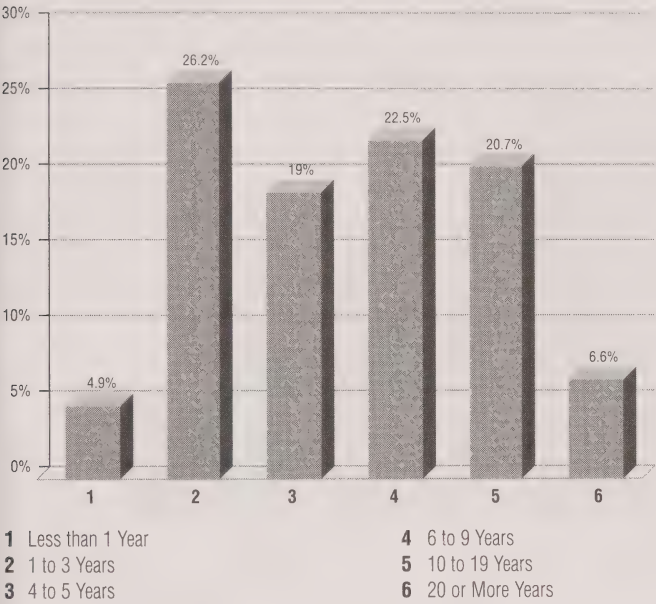
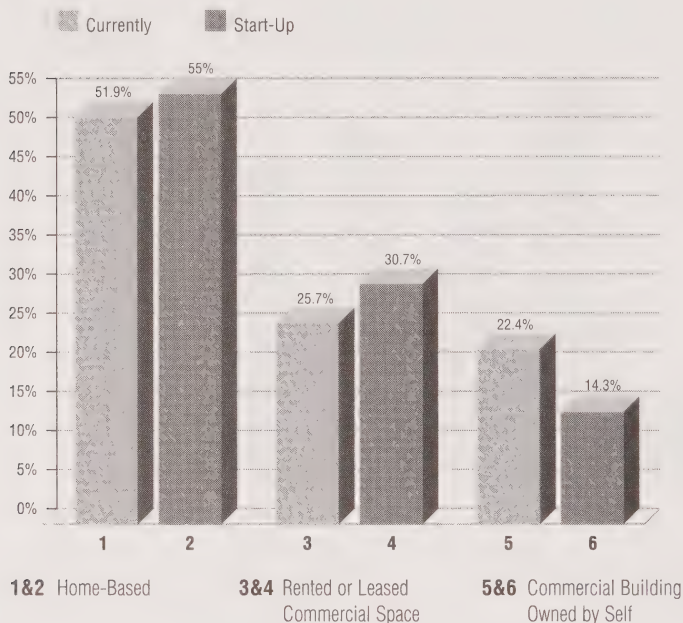


Figure 4.7

Age of Business

Source: *Measuring the Economic Impact*



**Figure 4.8****Business Locations at Start-Up and Currently**Source: *Measuring the Economic Impact*

Not surprisingly, the major market for 90% of the respondents was local. A high percentage of business (92.5%) are very small (less than 5 employees, see Figure 4.10), with 56.2% having sales of less than \$25,000 (Figure 4.9). However, women-owned businesses in this sample appear to be expanding their markets beyond their local area with 52% operating provincially, 36% regionally, 36.8% nationally and a surprising 31.6% operating internationally (Figure 4.6). The latter is impressive given that only 9.6% of these businesses had sales of more than \$500,000.

A survey<sup>5</sup> by the Business Development Bank of Canada (BDC) reported that, across Canada, 28% of women-owned businesses (with fewer than 99 employees) presently export their products or services.

<sup>5</sup> *Canadian Women Entrepreneurs in Growing Sectors: A Survey, 1997*, Business Development Bank of Canada.

This would indicate that Atlantic Canadian women business owners are “staying with” their Canadian counterparts in terms of the new “global economy.”

While 31.1% of firms surveyed are relatively young (less than four years, see Figure 4.7), there is a good indication that a high percentage have staying power with 49.8% in business for more than five years.

Figure 4.8 and Tables 4.1 and 4.2 clearly show the relationships between business size and location of the business as it grows and develops. More than 50% of the businesses in this study are home-based. There is a tendency for younger firms to be home-based and, as sales increase, many firms move to leased or owned premises out of necessity or preference (Table 4.2).

Table 4.1

Firm Age and Location of Business Operation

Business Location			
Age of Business	Home-Based	Rent or Lease Space	Own Building
New (in business less than 3 years)	61.0%	29.5%	9.5%
Growing (in business 4 to 9 years)	51.1%	26.2%	22.7%
Mature (in business 10 years or more)	43.0%	20.4%	36.6%

Source: *Measuring the Economic Impact*

Table 4.2

Location of Business Operation and Firm Size

Annual Sales			
Location of Operation	Less than \$50,000	Between \$50,000 and \$200,000	More than \$200,000
Home-Based	72.0%	22.1%	2.3%
Rent or Lease Space	26.0%	39.6%	32.0%
Own Building	22.3%	31.6%	44.7%

Source: *Measuring the Economic Impact*

As a business gets older (Figure 4.8, Table 4.1), there is a tendency to leave the home base and either move into leased space or buy a building in some commercial or industrial zone. Likewise, as businesses grow both in terms of sales and, particularly, number of employees, the ability to sustain a home-based location becomes more and more difficult. The home, therefore, is quite often suitable for micro-firms that remain small. In fact, some 35% of home-based businesses operate there for more than 10 years.<sup>6</sup> For the growing firm, the home serves as an incubator, allowing the enterprise to become established and to develop markets at relatively low risk. Furthermore, 48.3% of home-based businesses have sales of less than \$50,000 and would likely be unable to afford leased premises.

### **Economic Impact**

The increasing economic impact of women-owned businesses was the major finding of the WWF study. It suggests that “total annual sales generated by all women-owned firms in Atlantic Canada is estimated to exceed two billion dollars.” Clearly, this is a significant contribution to the regional economy.

The majority of respondents to the WWF study are small by any measure. For example, 63.4% have sales of \$100,000 or less (Figure 4.9) and 78.5% have fewer than five employees (Figure 4.10). Employment distribution for all firms in Atlantic Canada in 1995 shows that approximately 80% of all Atlantic Canadian firms fall into the category of fewer than five employees. The average number of employees for firms in the WWF study was 3.5.

What is interesting about the results of this study is the dynamics of growth over the period between start-up and 1997. It has to be noted here that the survey is dealing with “successful” firms that have survived over a number of years and does not address failures.

Figure 4.9 shows how the successful firms have grown in terms of sales. This figure shows that some surviving firms emerged from the very small enterprise (<\$10,000) to one of the other larger categories while 25.2% remained very small. In fact, some firms may have started business in a larger sales category and slipped to a smaller

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<sup>6</sup> *The State of Small Business and Entrepreneurship in Atlantic Canada - 1996*, p. 63.

sales category. Collectively, however, Figure 4.9 suggests that surviving firms grew in size and the most significant growth range appears to be in the \$50,000-\$500,000 range. For example, 6.9% of respondents reported sales of \$100,001-\$200,000 at start-up, compared to 13.6% currently. In all sales categories above \$10,000, the respondents reported on in the WWF study collectively show growth.

Figure 4.9

Annual Sales at Start-Up and Currently

Source: *Measuring the Economic Impact*

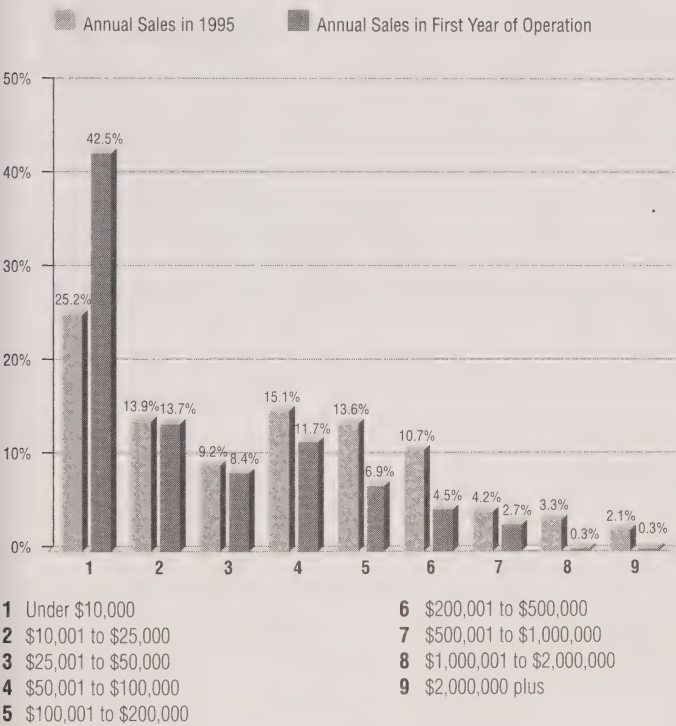


Table 4.3 shows a cross-tabulation between size (in sales) and age of the respondent firms. This table shows that, as businesses mature in age, they tend to grow in terms of sales volume. Furthermore, firms tend to start small – 55.9% of firms less than three years old have sales of less than \$50,000. On the other hand, 61.4% of mature firms (>10 years) have sales greater than \$50,000.

Data presented in the WWF study indicate that the respondent group had a relatively good three years. Only 17.9% indicated that sales had declined, while 54.1% reported that sales had increased (41.3%) or increased significantly (12.8%). This indicates that survivors are doing reasonably well.

**Table 4.3**

### Business Tenure and Firm Size

Age of Business	Annual Sales			
	Less than \$50,000	Between \$50,000 and \$200,000	Between \$200,000 and \$500,000	More than \$500,000
New (in business less than 3 years)	55.9%	28.5%	7.8%	3.0%
Growing (in business 4 to 9 years)	50.7%	28.2%	13.0%	6.5%
Mature (in business 10 years or more)	36.6%	30.1%	10.8%	20.5%

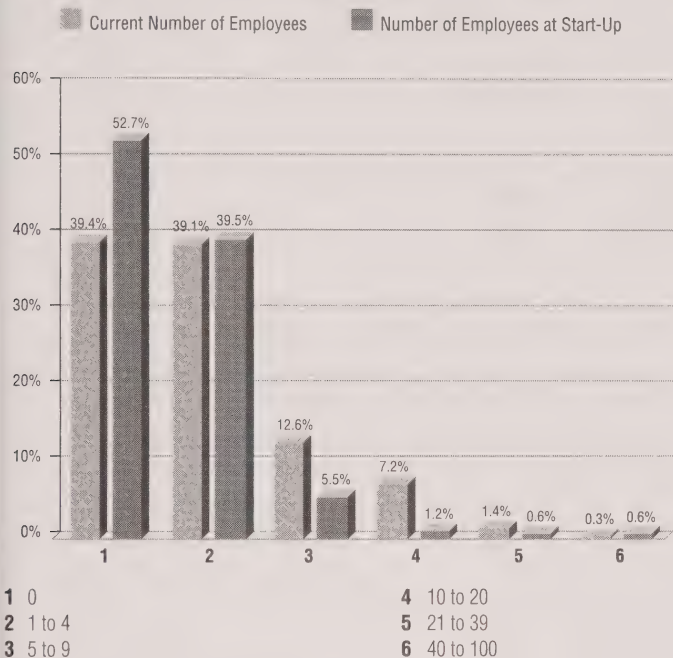
Source: *Measuring the Economic Impact*

Figure 4.10 shows the growth in employment by women-owned businesses over their tenure.

Figure 4.10

Number of Employees at Start-Up and Currently

Source: *Measuring the Economic Impact*



This figure shows a similar pattern to sales growth. For example, 52.7% had no employees at start-up compared to only 39.4% at the time of the survey. On the other hand, 7.2% of respondents had 10-20 employees currently, as compared to only 1.2% of the businesses at start-up. Not surprisingly, there is a direct relationship between the age of the business and the number of employees. This is illustrated in Table 4.4.

**Table 4.4****Business Tenure and Number of Employees**

Age of Business	Number of Employees		
	Less than 5 Employees	Between 5 and 9 Employees	10 or More Employees
New (in business less than 3 years)	86.9%	7.5%	5.6%
Growing (in business 4 to 9 years)	78.0%	12.0%	9.8%
Mature (in business 10 years or more)	68.5%	20.0%	11.6%

Source: *Measuring the Economic Impact*

Of those firms in business less than three years, 86.9% employ fewer than five people and only 5.6% employ more than 10 people. There is evidence, however, that a significant proportion of mature firms, those in business for more than 10 years, have remained small. Of the mature firms, 68.5% still employ fewer than five people and just 11.6% of these firms employ more than 10 employees. It can be said, therefore, that while there appears to be growth over time in both sales and employment for the group surveyed, a high percentage of the respondent-firms remain small (<5 employees) at any age.

It appears that the size of women-owned businesses in Atlantic Canada is getting smaller. In 1990, 29% of women-owned businesses had no employees.<sup>7</sup> According to the WWF study, this proportion jumped to 39.4%. Furthermore, the percentage of women-owned businesses with more than five employees dropped from 28% in 1990<sup>8</sup> to 21.5% in 1996. Some of this structural change could be explained by the degree to which small companies contract work out rather than hire extra staff. This restricts internal growth. The WWF study reports that 27.7%<sup>9</sup> of all firms in the survey contract out more than \$10,000 annually to other firms and of this, 15.1% provide contract work worth more than \$20,000 per year. Such managerial decisions could reflect a conservative approach to expansion during a period of economic uncertainty, while only 36% report using contract work.

<sup>7</sup> *The State of Small Business and Entrepreneurship in Atlantic Canada - 1992*, p. 99.

<sup>8</sup> Ibid.

<sup>9</sup> WWF study, p. 20, figure 17.

Another indication of the conservative nature of the respondents in this survey is reflected in the level of salary or drawings from the business. The relatively low level of salary is also a manifestation of the incubative nature of small women-owned businesses. Table 4.5 shows the relationship between the level of salary and the age of the business.

**Table 4.5**

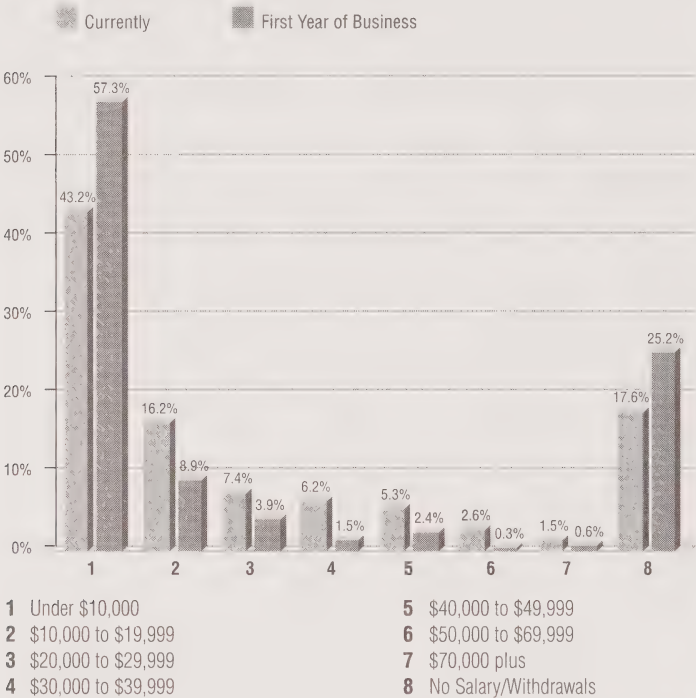
**Business Tenure and Salary/Withdrawals from the Business**

Age of Business	Salary/Withdrawals			
	No Salary/ Withdrawal	Less than \$20,000	Between \$20,000 and \$50,000	More than \$50,000
New (in business less than 3 years)	25.0%	64.5%	10.5%	0.0%
Growing (in business 4 to 9 years)	17.1%	60.7%	17.8%	4.3%
Mature (in business 10 years or more)	8.7%	54.5%	29.4%	7.6%

Source: *Measuring the Economic Impact*

It is interesting to note that 25% of business owners of young firms (<3 years) took no salary at all. This would clearly suggest that these enterprises were part-time operations and the owners were not dependent on the business for financial support. As the business matured, this percentage dropped to 8.7%. Only 10.5% of the owners of young firms drew salaries of \$20,000-\$50,000. This percentage grew to 29.4% as the business reached the mature stage.

When one looks at the aggregate sample at the time of the survey (Figure 4.11), over 43% of the women were taking salaries of less than \$10,000, and 17.6% were taking no salary at all. Only 23% were taking salaries of \$20,000 or more.

**Figure 4.11****Salary/Withdrawals at Start-Up and Currently**Source: *Measuring the Economic Impact*

Such low salary/withdrawals by women in this sample suggests that: (a) the business sales could not support more; (b) women tend to be conservative and would rather nurture the business by retaining profits for growth; (c) they are operating the enterprise as a part-time venture; or, (d) they are undercapitalized initially and have difficulty in the growth stage.

**Financing**

Getting start-up and ongoing capital for small enterprises, whether owned by men or women, has been an issue for years. Most businesses rely on personal investment and, almost always, the commercial banking system to support their operations. Many studies have tried to see if small business has been discriminated against compared to larger business. The most notable was the

Wynant-Hatch study in 1991.<sup>10</sup> While much of the evidence is anecdotal, women still seem to face discrimination in their efforts to get financing.<sup>11</sup> “Women business owners come away from a banking experience with much less of a sense of having been treated respectfully and are less comfortable with such an experience.”<sup>12</sup>

The WWF study reports specifically on the experience of women in the region with respect to start-up capital, other financing, collateral requirements and their general relationships with lenders. Figure 4.12 presents the sources of start-up capital for survey respondents.

The major source of start-up capital is from personal sources. These essentially include personal savings (66%), sale of personal assets (8.3%), and loans from family and friends (20.3%). While government agencies are a factor (12%), commercial banks were used by 34.3% of respondents. These percentages for women are similar to those contained in the 1992 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* (p. 104). In 1990, comparable percentages were: personal savings (58.5%), family (25.7%), government (17.6%), and banks (39.4%). In other words, there appears to be little change in the mix of financing sources used by women at the start-up stage over a seven-year period.

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<sup>10</sup> *Banks and Small Business Borrowers*, 1991, L. Wynant and J. Hatch, The Western Business School, The University of Western Ontario, London, Ontario.

<sup>11</sup> *Giving Credit Where It's Due: Women Business Owners and Canadian Financial Institutions*. Allan L. Riding and Catherine S. Swift, in Proceedings of the Fifth Canadian Conference of the International Council for Small Business, 1988.

<sup>12</sup> *Gender and Banking with the Small Business Client*, 1994, L. Fabowale, B. Orser, A. Riding and C. Swift, *Canadian Women Studies*, Vol. 15, No. 1.

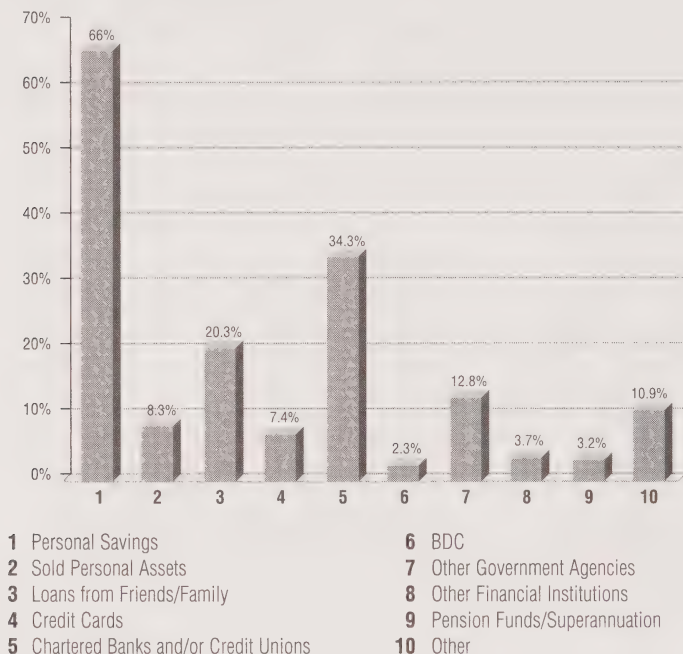
**Figure 4.12****Sources of Start-Up Capital***Source: Measuring the Economic Impact*

Table 4.6 presents a comparison of the data from the WWF study with various groups with respect to sources of start-up capital.

When one looks at all SMEs in Canada and Atlantic Canada where both men- and women-owned businesses are included, it would appear that collectively men and women were able to leverage their personal investment into debt financing to a much greater degree than women owners only, both in Atlantic Canada and in Canada as a whole.

Table 4.6

Sources of Financing: A Comparative Analysis

Current Financing	WBOs Atlantic Canada	All SMEs Atlantic Canada	All SMEs Canada	Women SMEs Canada
Personal Savings	66.0%	45.0%	39.0%	46.0%
Chartered Banks/ Other Financial Institutions	38.0%	65.0%	51.0%	39.0%
Government Loans/BDC	14.9%	22.0%	15.0%	11.0%
Loans from Friends/Relatives	20.3%	12.0%	12.0%	12.0%

Source: *Measuring the Economic Impact*

The WWF study reported on the percentage of women business owners who had difficulty obtaining financing at start-up and on an ongoing basis. During the start-up stage, 35.1% of respondents reported having problems accessing financing, while 31.7% had problems later in the development of the business. The requirement of a co-signer was more prevalent at time of start-up. In 55% of cases, women entrepreneurs had to pledge personal property.

Surprisingly, the relationship between lending institutions and the respondents of this study appears to be reasonably good. At start-up, 66.2% indicated that they had no problem dealing with lenders, in all likelihood because two-thirds of the start-up funding came from personal sources and the need to deal with lending institutions was limited. Furthermore, 89.2% of respondents had average to good working relationships with lenders at the time of the survey versus 83.3% at the start-up stage of their ventures.

In general, it can be said that the good lender relationships may be a function of the degree to which personal sources are used to support the business venture (66%); the use of co-signers (spouse and friends); or, pledges of personal assets to support any debt. Such collateral provides a comfort zone to lending institutions which tend to be balance-sheet lenders.

## Education and Training

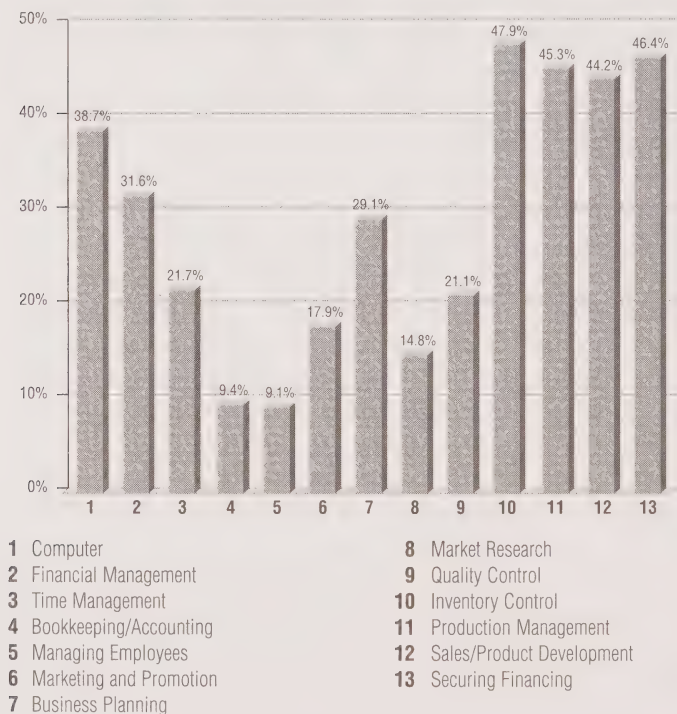
In 1986, 12.8% of the self-employed women in Canada had less than a high school education, while 43.1% had some post-secondary education (including undergraduate and graduate degrees).<sup>13</sup> In the WWF study, 82.9% of women entrepreneurs had some post-secondary education. While the comparison is not strictly valid, it does indicate that women entrepreneurs are generally becoming more educated.

In addition to the rather substantial general education to start with, respondents indicated that they pursued other training (either courses or seminars) specific to their business operations. Most of the areas of training are associated with business management, as can be seen from Figure 4.13.

**Figure 4.13**

### Management Skills Acquired by Training

Source: *Measuring the Economic Impact*



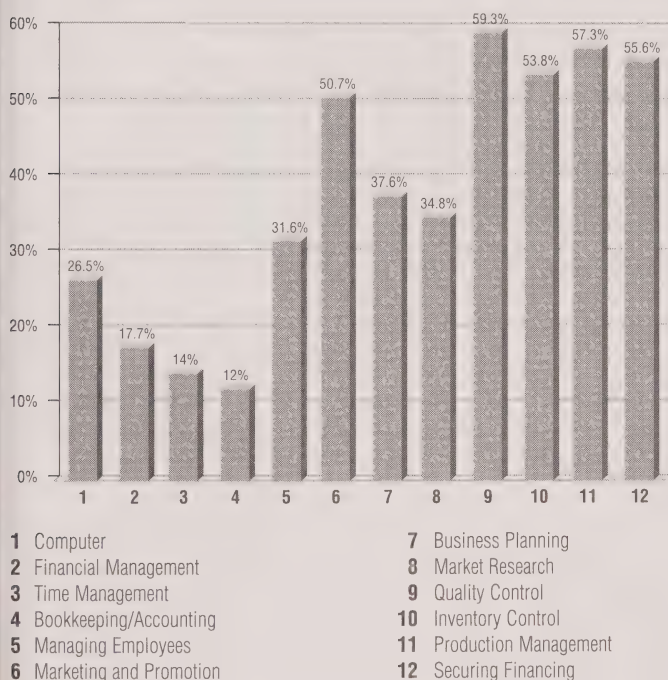
<sup>13</sup> *The State of Small Business and Entrepreneurship in Atlantic Canada - 1992*, p. 96.

The areas where training appeared to be most needed were in inventory control (47.9%), production management (45.3%), sales/product development (44.2%) and financing (46.4%). Training on computers was also important (38.7%). These same areas tend to be the same management areas for which women entrepreneurs seek advice and assistance from others (Figure 4.14).

**Figure 4.14**

### Areas in Which Advice and Assistance from Others Are Used

Source: *Measuring the Economic Impact*



Interestingly, 47.3% of women entrepreneurs rely on their own knowledge and skill in areas of business management, such as managing employees. Only 9.1% relied on additional training to compensate for any shortcomings in this area. This is consistent with the generally accepted belief by women entrepreneurs that one of their strengths is dealing with people.

When asked about future training needs, managing employees ranks close to the bottom of the list, while areas such as planning and marketing rank at the top. However, there could be a direct correlation between the small number of employees in the businesses surveyed and their seemingly low interest in human resource issues.

It has to be noted that these women entrepreneurs have been in business for varying lengths of time and are probably starting to realize that marketing planning, and planning in general are important long-term components of managing a successful enterprise.

### **Work and Family**

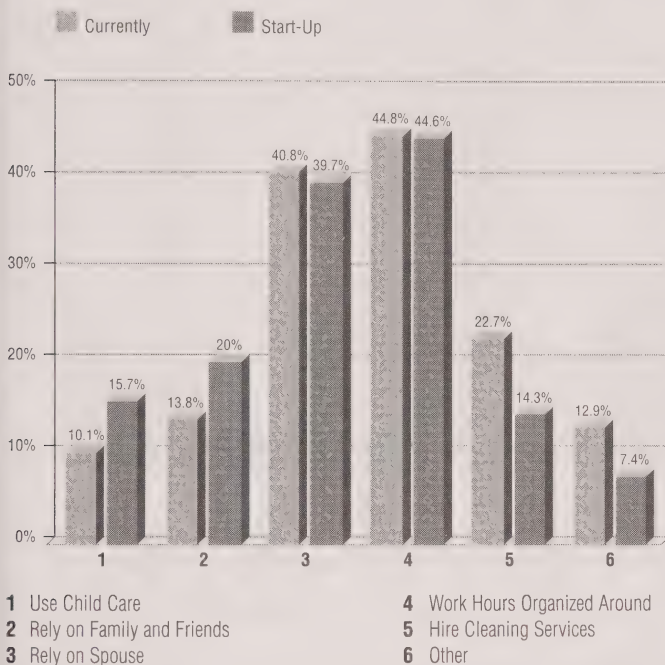
When considering women entrepreneurs, a number of issues come to mind, including marital status, children and household responsibilities, as well as the role conflicts inherent in the various relationships. The WWF study indicates that 72.5% of this sample of women entrepreneurs were married and an additional 7.2% were “partnered”. Of this group, 50.8% had children living in the household. Women entrepreneurs have to balance the demands of work outside the home with housework and care of the children and, in most cases, the spouse.

Women entrepreneurs see themselves as “more determined, having more initiative, being more independent, more diligent and more creative”<sup>14</sup> than their male counterparts. Over 70% of the respondents indicated that family responsibilities did not present a major obstacle to running a business.

Figure 4.15 indicates the strategies used by women entrepreneurs to balance work and family responsibilities. While various strategies were sometimes used together, the two major strategies were to rely on the spouse (39.7%) and to organize work hours around family commitments (44.6%). Outside help such as child care, family and friends and cleaning services were used to a lesser extent (15.7%, 20.0% and 14.3% respectively).

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<sup>14</sup> *The State of Small Business and Entrepreneurship in Atlantic Canada - 1992*, p.111.

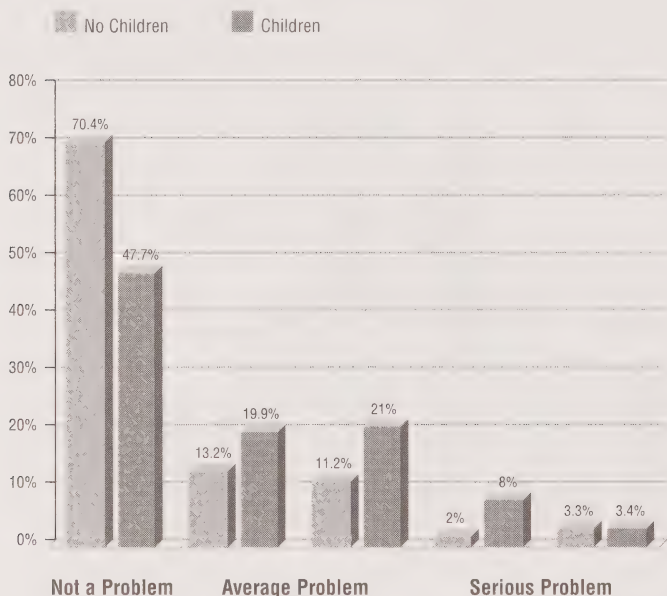
**Figure 4.15****Strategies for Balancing Work and Family**Source: *Measuring the Economic Impact*

For some women entrepreneurs, children present a special challenge. Figure 4.16 shows the perception of family as an obstacle to business operations. For those women without children, 83.6% see very little problem. For those with children in the household, 67.6% perceive the problem as relatively minor. Only a very small percentage (3.4%) of women entrepreneurs see the whole issue of family and children as a serious problem. The low percentage may reflect the fact that women have developed strategies to successfully cope with the issue of balancing work and family responsibilities.

**Figure 4.16**

## Children and Perceptions of Family as an Obstacle to Business Operation

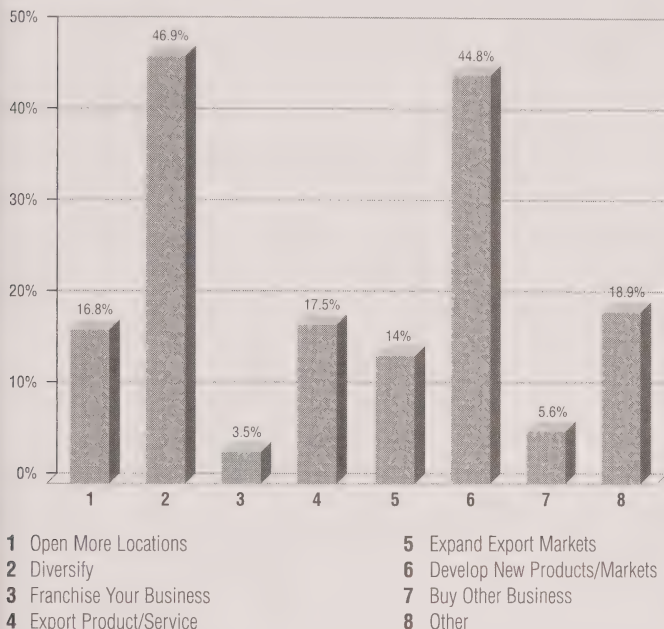
Source: *Measuring the Economic Impact*



## Growth and Expansion

The final chapter in the WWF study focuses on growth and expansion. The future of small, women-owned businesses will depend on (a) the desire to grow, (b) the ability to grow (quite often out of a home-based environment) and, (c) the opportunity to grow (markets/products). A study by Judith Potts<sup>15</sup> indicates that “fewer women-owned businesses than men-owned or men- and women-owned businesses grew in gross business income.” What is encouraging about the WWF study is that almost 42% of the respondents plan some kind of expansion and, of those “growth-oriented” entrepreneurs, 69.8% plan to do so within the next two to three years. Of those planning to grow, 76.2% anticipate increased sales and 65% expect to employ more people. Most expect that incremental profits will follow (81.4%). Figure 4.17 presents the planned expansion strategies of those who want to grow.

<sup>15</sup> *Gender of Owner Plays a Role in Business Growth*, 1994, Judith Potts, *Canadian Women Studies*, Vol. 15, No. 1.

**Figure 4.17****Expansion Strategies**Source: *Measuring the Economic Impact*

A very high percentage have a visionary mind-set in that 46.9% wish to diversify and 44.8% would like to develop new products/services and new markets. Exports appear to be important as well, since 31.5% have exports as a component of their expansion strategies.

**Conclusions**

In this chapter, an effort was made to highlight the major findings of the WWF study on the economic impact of women business owners in Atlantic Canada. Quite apart from the purely economic impact, some of the other important issues related to women-owned businesses are discussed. The study shows that women-owned businesses in Atlantic Canada make a significant contribution to the economy, that women entrepreneurs have a high degree of determination and tenacity, and that they are optimistic despite the obstacles they have to encounter in the process of creating and developing a business.



## Chapter Five

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# Regional Competitiveness

Competitiveness is defined by the Organization for Economic Co-operation and Development (OECD) as “the degree to which a country can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real incomes of its people over the long term.”<sup>1</sup> Although not a country, the Atlantic region competes within Canada and internationally both in terms of the sale of goods and services and in terms of attracting investment dollars. As such, it is critical to understand the factors and indicators that underlie and determine competitiveness in Atlantic Canada.

The present chapter summarizes the results of recently completed research on Atlantic Canada’s competitiveness, discusses the challenges facing the region in this area and outlines potential strategies to improve its competitive position. The basis for much of the discussion comes from five studies commissioned by ACOA, and from a roundtable co-hosted by the Atlantic Provinces Chamber of Commerce (APCC) and ACOA. The first study<sup>2</sup> examines location-sensitive cost factors and quality of life indicators. The second study<sup>3</sup> compares the socio-economic status of Atlantic Canada with G-7 nations. The third study<sup>4</sup> compares the economic performance and

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<sup>1</sup> *Atlantic Canada and the World: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia, p. 3.

<sup>2</sup> *A Comparison of 1996 Business Costs in Atlantic Canada and the United States*, 1996, KPMG Management Consulting in association with Business Development Information Incorporated (BDI Inc.), Halifax, Nova Scotia.

<sup>3</sup> *Atlantic Canada Human Development Index Study*, 1996, Informetrica Limited, Ottawa.

<sup>4</sup> *Atlantic Canada and the 50 States: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia.

development potential of Atlantic Canada to the 50 U.S. states. The fourth study<sup>5</sup> compares Atlantic Canada's competitiveness with the world's leading economies. The final study<sup>6</sup> is an update and expansion of the 1996 KPMG Management Consulting (KPMG) study which compared the costs of doing business in Atlantic Canada to those in the United States. This 1997 report provides an updated comparison to the United States and includes a comparison of the costs of doing business in Atlantic Canada with five European countries.

Together, these five studies present a comprehensive picture of the competitiveness of the economy of Atlantic Canada. The report<sup>7</sup> on the ACOA/APCC roundtable provides a summary of the strengths and weaknesses of the Atlantic region as well as suggestions on how to improve Atlantic Canada's competitive position in the global economy.

The remainder of this chapter provides an overview of the research on competitiveness in Atlantic Canada, a framework for understanding competitiveness, a discussion of the challenges to achieving increased competitiveness in the region, and a discussion of suggested strategies to improve the competitiveness of Atlantic Canada.

### Overview of Research

The ACOA-commissioned studies discussed in this chapter represent the first attempt to apply national and international models of competitiveness at a regional level. As such, they were intended to achieve the following objectives:

- show Atlantic Canada in a North American and global perspective, using internationally recognized standards of measurement;
- demonstrate that Atlantic Canada has a real basis for competitiveness and growth, particularly vis-à-vis the United States;
- identify the region's strengths as a basis for promoting opportunities and attracting investment;
- identify specific areas of weakness requiring policy and program initiatives; and

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<sup>5</sup> *Atlantic Canada and the World: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia.

<sup>6</sup> *The Atlantic Canada Advantage: A comparison of business costs in Atlantic Canada, Europe and the United States*, 1997, KPMG Canada and Prospectus Inc.

<sup>7</sup> *A Shared Economic Vision for Atlantic Canada*, 1996, The Atlantic Canada Chamber of Commerce.

- respond to the myth that Atlantic Canada is not a competitive location for investments.<sup>8</sup>

Following is a brief discussion of the background, methodology and key findings of each study dealing specifically with the issue of regional competitiveness. This discussion is organized and presented under the following key determinants of competitiveness: business costs, human development, and economic performance and development potential.

**Business Costs.** As indicated previously, ACOA commissioned two studies that focussed on capital and operating costs that are considered to be location-sensitive. The first, a 1996 KPMG/BDI study<sup>9</sup>, compares the financial and non-financial costs of establishing and operating a business in 28 cities – 12 in the United States and 16 in Atlantic Canada. Seven of the U.S. cities are located in the east. Seven industries are represented in the study including frozen foods, medical devices, software, telecommunications, plastics, metal fabrication and electronics and instrumentation. The industries were chosen to ensure representation from a mix of established and emerging industries, those with a variety of capital and operating cost requirements, and those representative of Atlantic Canada's economic potential.

Location-sensitive capital and operating costs examined in the study include industrial land costs, construction costs, labour costs, electricity costs, transportation and distribution costs, interest costs and income taxes. These costs represent approximately 36% of all costs for the types of businesses analysed. The remaining costs, such as raw materials, are assumed to be equal for the purpose of the research. The study briefly addressed the following non-financial factors which influence the site location choice: workforce characteristics, including educational and labour considerations; economic indicators, including government debt and current inflation levels;

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<sup>8</sup> *A Shared Economic Vision for Atlantic Canada*, 1996, The Atlantic Canada Chamber of Commerce, p. A1.

<sup>9</sup> *A Comparison of 1996 Business Costs in Atlantic Canada and the United States*, 1996, KPMG Management Consulting in association with Business Development Information Incorporated (BDI Inc.), Halifax, Nova Scotia.

personal financial factors, including the cost of housing, cost of living and taxation levels; and, safety and security issues, including personal and property crime rates.

The study employs a computer model that forecasts costs and projects financial information for a model business operation in each location over a 10-year period from start-up. The standard specifications used for each model operation, such as sales revenue, investment in machinery and equipment and working capital and staffing requirements, were developed in consultation with industry representatives and have been held constant for all study areas. Key findings of the study include:

- initial investment costs are lower in Atlantic Canada for every industry, largely as a result of lower land acquisition costs and lower construction costs;
- operating costs are lower in Atlantic Canada for every industry, primarily as a result of lower labour and benefits costs;
- Atlantic Canada's cost advantage holds over a wide range of exchange rates;
- wages are lower in Atlantic Canada than in the U.S.; however, the cost-of-living index and housing prices are also lower; and
- crime rates and homicide rates are lower in Atlantic Canada than in the U.S. jurisdictions.

The second study<sup>10</sup>, completed by KPMG in 1997, extends the comparative analysis of business costs from the 1996 study to include five European countries, as well as additional cities in the United States and Canada. A total of 42 locations are included, 27 in North America and 17 in Europe. Two notable differences exist between the two studies. First, the pharmaceutical industry is included in the 1997 analysis. Second, non-financial factors are given less attention in the second study.

In order to make comparisons at the international and regional levels, costs are analysed on the basis of an average of three to four representative cities in each country and an Atlantic Canadian average. In addition, individual data are reported for each of the 42

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<sup>10</sup> *The Atlantic Canada Advantage: A Comparison of Business Costs in Atlantic Canada, Europe and the United States*, 1997, KPMG Canada and Prospectus Inc.

cities. The results of the international comparison reinforce the findings of the 1996 study. Atlantic Canada demonstrates lower initial investment costs than all other locations, again as a result of lower land and construction costs. The Atlantic region also has the lowest operating costs, reflecting the lower labour and benefits costs. Overall, Atlantic Canada ranked first, just ahead of Canada, for each of the industries surveyed. Finally, the Atlantic region is home to the four lowest-cost cities of the 42 covered by the study.

**Human Development.** This study<sup>11</sup>, completed by Informetrica Limited, is an attempt to analyse economic and social development indicators in the Atlantic region and to make comparisons to G7 nations. The information obtained from this study is intended to complement the research on business costs outlined previously and thus add to the information base on Atlantic Canada available to potential domestic and foreign investors.

The methodology employed in the study was to develop measures for Atlantic Canada based on the United Nations' (UN) Human Development Index (HDI) and the United Nations Development Programme's Human Development Report (HDR). The HDI combines measures of longevity, knowledge and standard of living into a more comprehensive measure of human development or socio-economic status. The HDR, while dealing with components of the HDI, includes additional aspects of human development and other socio-economic concerns. The combination of the two provides a more complete assessment of human development. Utilizing these measures, the region was then compared to Canada and to other industrialized countries.

The results of the analysis indicate that if Atlantic Canada had been integrated into the United Nations' HDI rankings for 1992, the region would have placed second behind Canada. In addition, the report identifies the following strengths and challenges for the region:

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<sup>11</sup> *Atlantic Canada Human Development Index Study*, 1996, Informetrica Limited, Ottawa.

**Major Strengths:**

- health and long life expectancy
- commitment to education
- more equitable distribution of income
- abundant internal renewable water resources
- low inflation performance
- above-average economic growth
- strong growth in employee earnings

**Major Challenges:**

- low rate of industrialization
- high rates of unemployment, especially among youth
- decelerating population growth
- low investment effort
- few scientists and technicians and low tertiary science enrolment
- high rate of energy usage per capita

**Economic Performance and Development Potential.** The final two studies dealing specifically with regional competitiveness were undertaken by the North American Policy Group (NAPG), a university-based research and consulting organization located in the Faculty of Management at Dalhousie University in Halifax. The first<sup>12</sup> of the NAPG studies was designed to measure the development of the Atlantic region in comparison to the 50 U.S. states. This study utilized measures developed by the Corporation for Enterprise Development (CfED) to measure and compare the development of the U.S. states.

NAPG developed statistics for Atlantic Canada on 58 criteria used by CfED and graded the region in three areas based on these measures: economic performance, business vitality, and development capacity. In addition, although not graded, the tax and fiscal systems as well as environmental, social and health conditions were included in the analysis. Using the CfED model, and computing a simple average of scores in these areas, NAPG estimates that Atlantic Canada would place 33rd overall in relation to the 50 states.

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<sup>12</sup> *Atlantic Canada and the 50 States: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia.

On the positive side, the Atlantic region derives considerable advantage from national programs and institutions and, as a result, performs well in areas such as social and health systems, the environment and the banking system. The region also demonstrates a strong entrepreneurial spirit, as evidenced by the accelerating rate of growth of new business formation. However, the small entrepreneurial base in Atlantic Canada and the reliance on new companies to provide the majority of new job growth in the region are noted as challenges to be addressed. The study cited additional barriers to economic growth and development in Atlantic Canada including: low innovation and technology adoption, preparedness of the workforce, and lack of diversity in export industries.

The second NAPG study<sup>13</sup> was designed to measure the competitiveness of the Atlantic region in comparison to 48 countries of the world. This study utilizes a model developed for the 1995 World Competitiveness Report (WCR) published annually by the World Economic Forum and the International Institute for Management Development in Switzerland. The model includes 378 criteria, however, only 294 factors are utilized in the ranking process. These measures are ultimately grouped into the following eight categories: domestic economic strength, internationalization, government, finance, infrastructure, management, science and technology, and people.

When Atlantic Canada is inserted into the model using data developed by NAPG, the results indicate that the region ranks 27th out of the 49 economies in terms of world competitiveness. As with the first NAPG study, the findings suggest that many of the positive aspects of the region's performance derive from being a part of Canada, including the financial system and free trade with the U.S. Additional strengths reported for the region include low inflation and cost of living, strong infrastructure and general education capacity, high energy production, and positive workforce attitudes. Weaknesses are noted in the areas of export performance, energy consumption, manufacturing productivity, research and development, innovation and technology adoption, local capital markets and management skills.

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<sup>13</sup> *Atlantic Canada and the World: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia.

Overall, the study suggests that Atlantic Canada has a strong basis on which to develop its competitive position and that many of the weaknesses are in areas that can be addressed by effective economic policies, such as entrepreneurship, trade, science and technology and management and labour skills.

### **A Framework for Understanding Competitiveness**

At the roundtable<sup>14</sup> held in December 1996, Michael McCracken, Chairman of Informetrica, stressed the need to differentiate among levels of competitiveness. He argued that the economic objectives of competitiveness are different in the workplace, the marketplace and society. In the workplace, the objective is productivity. In the marketplace, competitiveness is key. The objective for society, on the other hand, is prosperity. Of course, increased productivity should lead to increased competitiveness which, in turn, should enhance prosperity. The challenge is to determine how to make progress at all three levels.

McCracken suggests that productivity improvements result from efforts on a number of fronts and he identifies the following general approaches to improving productivity:

- improve human resources;
- increase investment effort;
- adopt new technologies;
- enhance infrastructure; and
- shift resources to high productivity industries from lower ones.

The environment that must be created in order to effectively implement these strategies requires: low inflation, better macroeconomic performances, appropriate framework policies, better education and training, improved capacity to utilize skills, and appropriate organizational structures.

At the level of the marketplace, the intent is to improve the efficiency and effectiveness of Canadian firms by providing appropriate infrastructure and government support and by enhancing our ability

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<sup>14</sup> *A Shared Economic Vision for Atlantic Canada*, 1996, The Atlantic Canada Chamber of Commerce.

to compete internationally. McCracken suggests the following general approaches to improve competitiveness:

- improve the regulatory process;
- reduce internal barriers to trade;
- improve access to international markets;
- expand the information infrastructure on domestic markets and international economies; and
- assist Canadian firms to enter new markets.

Finally, at the level of society, McCracken suggests that prosperity is determined by our ability to provide rising real incomes, sustainable development, safety nets, contributions to world economies, improvements in regional economies, social amenities, and opportunities for citizen participation in processes. Achieving these goals and thus improving prosperity can be accomplished through a number of approaches as follows:

- redistribute incomes from a growing pie;
- ensure access to an efficient health care system;
- ensure access to high quality education;
- encourage voluntarism and charity; and
- involve citizens in determining goals.

McCracken summarizes the challenges facing Atlantic Canada, and the country as a whole, as being the ones linked to developing policies and implementing action plans which will lead to increased productivity, competitiveness and prosperity in future.

### **Challenges Facing Atlantic Canada**

In order to address the issue of Atlantic Canada's competitiveness and the specific challenges facing this region, participants in the roundtable were presented with a summary of the findings from the studies previously described. The findings, in the form of strengths and weaknesses, are grouped into six areas and are presented here as a basis for subsequent discussion in the next section of strategies to improve the competitiveness of the Atlantic region. The six areas are: technology, capital, education, human resources, trading patterns, and business investment. Although not singled out for specific attention at the roundtable, the category of management practices has been added to the list.

**Technology.** The research results indicate that Atlantic Canada has some excellent science and technology resources and infrastructure, as well as a favourable tax regime, especially by comparison to the U.S. The weaknesses in this area consist of the small number of scientists and technicians, low tertiary science enrolment, low private sector investment in research and development and personnel, and a low rating in technology management.

**Capital.** The Atlantic region benefits from a strong domestic financial system that provides access to much needed debt capital. However, the associated drawback appears to be an over-reliance on debt. In addition, Atlantic Canada suffers from a lack of an organized equity capital market, four separate securities regimes, slow take-up on available venture capital, and a reluctance on the part of businesses to go public.

**Human Resources.** Atlantic Canada's advantages in this area consist of comparatively lower wage costs, positive workforce attitudes and ethics, job creation by new businesses, and quality of life benefits including health, life expectancy and the environment. Unfortunately, the region suffers from a high rate of unemployment, especially for youth, decelerating population growth and an out-migration of highly educated and trained individuals.

**Education.** In terms of the educational system and associated resources, the strengths of the Atlantic region consist of a commitment to higher education, a high per capita supply of post-secondary institutions, high enrolment per capita in secondary and post-secondary institutions, and an available supply of highly-skilled workers. The weaknesses in this area include lower education levels than the U.S., a brain drain, failure of businesses to provide training to employees, and a disconnect between the post-secondary educational system and workplace demands.

**Trading Patterns.** Relatively free domestic trade and the competitive advantage offered through the North American Free Trade Agreement represent the strengths of the region in this area. The drawbacks consist of a lack of diversity in export industries, low growth rate in volume of merchandise exports, over-dependence on resource and manufacturing industries, and low job growth in larger enterprises.

**Business Investment.** Atlantic Canada has some distinct advantages in terms of a location for investment including: lower costs for industrial land, construction and labour than found in the U.S.; competitive costs for electricity, transportation and interest; above average economic growth; strong earnings-per-employee growth; and a high rate of manufacturing investment. On the other hand, the region suffers from low investment effort, low rate of industrialization and a small base from which to grow new businesses.

**Management Practices.** A recent study<sup>15</sup> by Statistics Canada indicates the importance of management practices to business success, hence to the region's competitiveness. Unfortunately, the area of management is noted<sup>16</sup> as one of the most critical challenges facing the Atlantic region. Results from the competitiveness studies suggest that Atlantic Canada suffers from a shortage of competent senior managers and management skills which, in turn, affects the workforce in the region. This is, in part, a function of a lack of management and employee training.

### **Strategies to Improve the Region's Competitiveness**

The findings of the various competitiveness studies indicate that Atlantic Canada possesses a number of assets and characteristics that generally take a long time to develop. As a result, by comparison to many other jurisdictions, the region has a solid foundation on which to build and maintain its competitive position. Nonetheless, the challenges facing the Atlantic region point to the need to develop a broad strategy that addresses identified structural weaknesses and capitalizes on identified strengths. The following review outlines the strategies which emerged from the roundtable discussions and subsequent initiatives designed to improve the competitiveness of the region. The format for this discussion follows from the previous section on the challenges facing the Atlantic region.

**Technology.** The roundtable participants expressed concern that Atlantic Canada has not been very effective in transferring technologies out of the research facilities in the region, especially universities. Considerable attention was devoted to a discussion of

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<sup>15</sup> *Failing Concerns: Business Bankruptcy in Canada*, 1997, Statistics Canada.

<sup>16</sup> *Atlantic Canada and the World: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia, p.27.

measures that would improve technology transfer. Specific suggestions included more partnering between business and academic institutions, increased market orientation combined with a greater focus on profitability, fostering entrepreneurship among the scientific community, and establishing more technology transfer units within universities.

In addition, participants felt the banks need to be more sensitive to the needs of small- and medium-sized enterprises (SMEs) in the area of research and development. Closely related to the issue of bank support is the need to provide more effective support structures for firms with high growth potential. The key to making progress in these areas is to establish more effective incubation mechanisms that include mentorship and management advice components.

**Capital.** Gaps in knowledge and understanding are more problematic than any capital market gaps in the region, with the possible exception of the lack of available equity for small business start-ups. Participants believed that entrepreneurs do not know how to source investment capital and do not understand lending and investing criteria. Similarly, lenders do not understand the needs of SMEs, especially those in the knowledge-based sectors. In terms of capital market structure, there appeared to be agreement that the region lacks the critical mass necessary to establish a regional stock exchange. However, much can and should be done to harmonize securities regulations in order to support the market for informal risk capital in the region.

**Human Resources and Education.** The underlying problem for participants in this area was the lack of dialogue between industry and post-secondary educational institutions. Such dialogue is critical to identifying the needs of industry and the willingness of the educational sector to meet those needs. In addition, the lack of commitment to employee training by industry reflects a problem of attitude that has been changing only recently and, indeed, quite slowly toward a greater recognition of the value of human resources to business success. While job creation was seen as an essential part of a strategy in this area, participants again pointed to the need for increased collaboration to identify industry training needs and to ensure more effective delivery mechanisms. Establishing training networks within industry sectors and sub-sectors to share the responsibility for training was cited as one such example of collaboration.

**Trading Patterns.** The underlying trade challenge facing the region appears to be one of developing sustainable export-based job growth. In the view of roundtable participants, the keys to attaining that goal involve enhanced export preparedness, greater diversity in products and services exported, and external markets served. This issue is closely related to the challenge of capitalizing on the competitive advantages associated with the region's natural resources. Networking, strategic alliances, partnering and business/government collaboration were all suggested as strategies to pool resources and, thereby, capitalize on export market opportunities. The Industry Canada – Chamber of Commerce flexible business networks initiative and the Atlantic Canada – New England Partnership Conference were mentioned as two excellent examples of pooling resources and partnering.

In addition, participants suggested the need to develop an exporting attitude in the region and to more aggressively promote the region's goods and services in export markets. Finally, it was recommended that those efforts be organized around sectors and sub-sectors, as in the case of the human resources and education strategy referred to earlier.

**Business Investment.** As indicated previously, Atlantic Canada offers some distinct advantages as a location for new business investment. Recently, there has been an increased effort to aggressively promote the region as an ideal investment area. With this stepped up effort, it will be important to strike a proper balance between attracting investment and supporting large firms as well as SMEs. The latter require support in export marketing and in accessing the resources and market knowledge of firms that have succeeded in international markets. The importance of the large firm appears to have been overlooked in the new economy and the need for renewed focus on this segment was expressed. Finally, participants felt that Atlantic Canada should build on export opportunities in the service sector, especially in the areas of health care and education, where the region has significant advantages over the competition, especially in the U.S. market.

**Management Practices.** Recent research<sup>17</sup> reinforces earlier findings that enhancing management skills and increasing the use of formal

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<sup>17</sup> *Successful Entrants: Creating the Capacity for Survival and Growth*, 1997, Statistics Canada.

business management practices can result in increased survival, growth and productivity rates for SMEs. As a result, the area of management practices is considered to be an essential component of an Atlantic Canada strategy to improve competitiveness.

Improving the performance of the regional economy through the creation of more competitive, growing enterprises has been the focus of a recent initiative fostered by ACOA and a number of public and private sector partners. This Business Management Practices (BMPs) initiative is intended to achieve the following objectives: to enhance the skills of business managers and owners; to increase their understanding of the benefits of BMPs; and, to stimulate increased use of BMPs by SMEs in Atlantic Canada. As a first step to achieving these goals, ACOA commissioned research<sup>18</sup> to document strategies and approaches used by leading nations to instill the best management practices in small- and medium-sized firms. The results of this study have confirmed that the approach and direction proposed for Atlantic Canada is in line with the strategies developed by leading nations in the pursuit of these goals.

Other studies will improve our understanding of the core business skills needed to successfully run a business and of the level of business skills and management practices currently in use. More specifically, the findings from these best management practices studies will provide the foundation for a partners' agreement on vision, action plans and next steps to implement the strategy, including the following three essential elements:

- a methodology for measuring improvements to the baseline;
- a database for use by companies to benchmark their operational results or to confirm areas where changes can provide the most impact; and
- a database of training and educational resources designed to help businesses identify and better understand their training needs and to assist SMEs in selecting the right trainer and the right training program.

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<sup>18</sup> *Methods Used by Leading Nations to Engender Best Management Practices in Small and Medium-Sized Enterprises and the Application to Atlantic Canada*, 1997, The ATi Consulting Corporation, Inc., Halifax, Nova Scotia.

## Summary

Results of the research on the competitiveness of the Atlantic region indicate that Atlantic Canada has strengths that should provide long-term sustainable competitive advantages. In particular, the region offers advantages in the areas of initial investment and operating costs that reflect lower industrial land and construction costs and lower labour costs, which hold over a wide range of exchange rates. In addition, human development indicators, including measures of longevity, knowledge and standard of living, place the region second only to Canada. While Atlantic Canada's strengths in this area are derived, in part, from its position within Canada, the region also offers its own distinct advantages, such as abundant renewable water resources and excellent educational infrastructure. Further, in terms of economic performance and development potential, the Atlantic region possesses advantages in areas such as health, social systems and the environment, and demonstrates a strong entrepreneurial spirit.

Notwithstanding the many positive aspects of Atlantic Canada as an investment location and its demonstrated performance in the areas noted above, the region faces a number of challenges to improving its competitive position in the global marketplace. Specifically, a high rate of unemployment, decelerating population growth and the out-migration of highly educated young people have a negative impact on the region's human resource potential. These problems are compounded in the technology area by comparatively low rates of innovation and technology adoption and a low level of private sector investment in research and development and related human resources. In addition, Atlantic Canada needs to diversify its export products, services and markets, to increase access to equity capital and to improve the preparedness of the workforce in the region, including those in management positions. Addressing the challenges related to the region's natural resources is considered essential to increasing the competitiveness of Atlantic Canada.

Suggested strategies to improve the region's competitiveness must be based on a well articulated and shared vision emanating from both public and private sector stakeholders. Partnering, collaboration, networking and strategic alliances are consistent themes underlying the implementation of specific strategies which should include the following: educational and training programs targeted to the needs of

industry; enhanced efforts to increase technology transfer from the universities to the private sector; more effective support structure for SMEs with high growth and export potential; and, implementation of best management practices. Finally, the vision and the strategies must reflect an overriding positive attitude about the prospects for Atlantic Canada.

# About ACOA

## Building a Stronger Economy Together

### ACOA's mandate

The Atlantic Canada Opportunities Agency (ACOA) is a federal government economic development organization mandated to work with businesses, business organizations, provincial governments and other federal departments to help create new and lasting jobs and raise earned incomes in Atlantic Canada.

### Our strategy

Because new employment is the direct result of business growth, particularly among small- and medium-sized enterprises (SMEs), ACOA seeks to provide people with the encouragement, advice, access to capital and information, and the technology they need to start and expand their own businesses.

### Our objectives

- 1 To ensure that a wide variety of business development tools and resources are available to help more small businesses start up, survive, prosper and create good, long-lasting jobs.
- 2 To ensure that all federal economic development programs and activities in Atlantic Canada are coordinated and designed to improve the climate for business growth.

### Our priorities

ACOA helps small firms create jobs, and generally works to improve the environment for business development, by focussing on the following:

- Entrepreneurship – because 96,400 (72.3 percent) of the 133,200 new jobs created by firms that entered the economy after 1989, were created by small businesses.
- Trade – because every \$1-billion increase in exports creates 11,000 jobs.
- Innovation and Technology – because innovative companies are growing companies, and growing companies create jobs.
- Business Management Practices (BMP) – because formal BMP makes companies more productive and resilient.
- Access to Capital and Information – because adequate access stimulates business start-ups, expansion and job creation.
- Tourism Development – because tourism is one of the fastest-growing industries in the world and a significant source of revenues and jobs in Atlantic Canada.

### **Our services**

To meet its objectives in each economic development area, ACOA administers, or is involved in, a number of key programs and activities:

- Business Development Program – designed to help SMEs establish, expand or modernize by offering access to capital in the form of interest-free loans.
- ACF Equity Atlantic Inc. – a \$30-million venture capital fund, designed to address the deficiency in venture capital availability in Atlantic Canada.
- Community-Based Economic Development – grassroots efforts by communities, with ACOA's support, to improve their economic conditions.
- Canada Business Service Centres – a network of centres providing business-related services and products to SMEs and aspiring entrepreneurs in the region.
- Bilateral Economic Development Agreements – federal/provincial cost-shared programs designed to improve the environment of economic growth in each of the Atlantic provinces.

- Pan-Atlantic Economic Development Agreements – comprehensive, initiatives designed to strengthen and support economically significant activities such as international trade and tourism on a region-wide basis.
- Advocacy, Coordination and Procurement – continuous efforts to represent the region's interests, while securing more federal government contracting opportunities in the Atlantic provinces.

ACOA is also involved in a number of other activities designed to improve the region's general economic health, such as:

- Canada Infrastructure Works Program
- DND Base closure adjustment activities
- Borden-Cape Tormentine redevelopment programs

### **The Industry Portfolio**

ACOA operates within the Industry Canada Portfolio, which includes 13 departments and agencies that report through the Minister of Industry to Parliament, to enhance employment opportunities for Canadians through SME development; trade and foreign investment; innovation and technology; and employment opportunities for young people.

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